



IMF POLICY PAPER

SECOND REVIEW OF THE IMPLEMENTATION OF GOVERNMENT FINANCE STATISTICS FRAMEWORK TO STRENGTHEN FISCAL ANALYSIS

May 2017

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SECOND REVIEW OF THE IMPLEMENTATION OF GOVERNMENT FINANCE STATISTICS FRAMEWORK TO STRENGTHEN FISCAL ANALYSIS

EXECUTIVE SUMMARY

This paper reports on the further developments in the implementation of the 2010 Board decision concerning Government Finance Statistics (GFS) to Strengthen Fiscal Analysis, and develops a path to continued improvement of fiscal data in the Fund. The 2010 Board decision envisaged (i) the inclusion in staff reports by May 2011 of key elements of the *GFSM 2001* presentation, together, if needed, with the presentation the authorities are more familiar with; and (ii) a continuation of technical assistance into the medium term to develop countries' capacity to produce comprehensive *GFSM 2001* data. The first review in 2013 called for a continuation of the migration strategy as well as the creation by management of a Government Finance Statistics Advisory Committee (GFSAC) to support the implementation of *GFSM* by countries and continued assistance to country teams and to countries to fully implement the Board decision.

The migration to a GFS presentation in staff reports has relapsed in 2017 compared to the 2013 review, although progress since 2011—the year following the 2010 Board decision—has been noticeable. Staff reports are also disclosing less balance sheet data, while coverage of fiscal data has slightly improved, with more reports covering general government or beyond. Various challenges, especially from the need to conduct policy discussions based on fiscal data with which the authorities are familiar and technical difficulties by country teams in migrating to the GFS framework, have slowed the implementation of the approved migration strategy. At the same time, the use of the GFS framework in fiscal surveillance and transparency initiatives has seen renewed impetus, such as from the 2014 Triennial Surveillance Review's strong emphasis on balance sheet analysis or the central role of the GFS framework in underpinning the 2014 Fiscal Transparency Code and related Fiscal Transparency Evaluations.

Going forward, rather than using a uniform approach to further implementing the GFS framework, this review proposes: (i) developing a staggered migration strategy, including tailored capacity development inside and outside the Fund taking into consideration country-specific and fiscal surveillance needs; (ii) encouraging staff to continue the effort to routinely assess financial balance sheets during surveillance; (iii) gradually expanding the coverage of fiscal data, taking into consideration country-specific circumstances and fiscal risk assessments; and (iv) reaffirming the support for the phased implementation of the GFS over the medium term.

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Glossary

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| AFRITAC | Africa Regional Technical Assistance Center |
| <i>BPM6</i> | <i>Balance of Payment Manual, Sixth Edition</i> |
| CD | Capacity Development |
| DGI-2 | Data Gap Initiative – Second Phase |
| DSA | Debt Sustainability Analysis |
| EITI | Extractive Industries Transparency Initiative |
| FAD | Fiscal Affairs Department |
| FST | Fiscal Stress Test |
| FTC | Fiscal Transparency Code |
| FTE | Fiscal Transparency Evaluation |
| GFS | Government Finance Statistics |
| GFSAC | Government Finance Statistics Advisory Committee |
| <i>GFSM 2001</i> | <i>Government Finance Statistics Manual 2001</i> |
| <i>GFSM 2014</i> | <i>Government Finance Statistics Manual 2014</i> |
| IFMIS | Integrated Financial Management Information Systems |
| IPSAS | International Public Accounting Standards |
| IPSASB | International Public Accounting Standards Board |
| PIM | Public Investment Management |
| PIMA | Public Investment Management Assessment |
| PSBR | Public Sector Borrowing Requirements |
| PSI | Policy Support Instrument |
| RBM | Result Based Management |
| SDDS Plus | Special Data Dissemination Standard Plus |
| 2008 SNA | 2008 System of National Accounts |
| STA | Statistics Department |
| TA | Technical assistance |
| TSR | Triennial Surveillance Review |

BACKGROUND

1. This paper reports on further developments in the implementation of the 2010 Board decision concerning the use of Government Finance Statistics to Strengthen Fiscal Analysis.¹

The Board decision in 2010 adopted a phased migration strategy for implementing the *Government Finance Statistics Manual 2001 (GFSM 2001)* as the standard for Fund fiscal data. The envisaged migration involved: (i) the inclusion in staff reports by May 2011 of key elements of the *GFSM 2001* presentation,² together, if needed, with the presentation the authorities are more familiar with; and (ii) a continuation of technical assistance into the medium term to develop countries' capacity to produce comprehensive *GFSM 2001* data in their own fiscal reporting and in reporting to the Fund.

2. The first review of the implementation of the 2010 Board decision took place in 2013.³

Overall, it found that there had been steady progress with the implementation of the Board decision, but it also identified a number of obstacles to its full implementation. The review therefore proposed: (i) the continuation of the migration strategy approved by the Board in 2010; (ii) the creation by management of a Government Finance Statistics Advisory Committee (GFSAC) to support the implementation of *GFSM 2001* by countries; and (iii) continued assistance to country teams and to countries to fully implement the Board decision.

3. Two GFSAC meetings have taken place since the 2013 paper. The key achievements of the first meeting in March 2015 included broad agreement on (i) the worldwide implementation of the *Government Finance Statistics Manual 2014 (GFSM 2014)*; (ii) the need to fill data gaps, with a particular focus on expanding coverage to the general government sector and reporting balance sheet data; and (iii) an ongoing research agenda. Following the meeting, the Board was informed of the outcomes.⁴ A second meeting was held in March 2017, with the participants from countries and other international organizations sharing the experiences about GFS balance sheet data, public-private partnerships, and pension liabilities.

4. Several developments since the 2013 review have reiterated the importance of *GFSM 2001/2014*⁵ as the internationally accepted standard and framework to foster comparability of data and support fiscal analysis.

- **Publication of *GFSM 2014*:** This update to the *GFSM 2001* brought the GFS guideline in line with the *2008 System of National Accounts (2008 SNA)* and clarified some concepts, definitions, and

¹ Board Decision n° 14565-10/20, March 2010.

² These were: (i) a Statement of Operations Table; and (ii) an Integrated Financial Balance Sheet. In addition, the general government sector (or wider aggregates when appropriate) as outlined in the *GFSM 2001* was adopted as the Fund's standard coverage for staff reports.

³ [Review of The Implementation of Government Finance Statistics to Strengthen Fiscal Analysis.](#)

⁴ [Report of the IMF Government Finance Statistics Advisory Committee 2015.](#)

⁵ For simplicity, *GFSM 2001/2014* will be referred to as the GFS framework hereafter.

operational guidelines, while keeping the overall framework unchanged. The revised GFS framework provides additional guidance and clarification on fiscal developments, such as public-private partnerships, bail-outs, and special purpose vehicles. In contrast to *GFSM 2001*, which brought with it substantial conceptual changes, *GFSM 2014* has no effect on the definitions of the main fiscal aggregates used for staff reports.⁶

- **Introduction of the Special Data Dissemination Standard Plus (SDDS Plus):** The SDDS Plus, which was established in 2012, currently has 14 participating countries.⁷ The SDDS Plus standard builds on the SDDS to guide member countries on the provision of economic and financial data to the public in support of domestic and international financial stability. The acceptable presentation in the SDDS Plus for the fiscal sector is *GFSM 2001/2014*.
- **Revision of the Fiscal Transparency Code:** A revised Fiscal Transparency Code (FTC) was approved by the Board in 2014 as the international standard for disclosure of information about public finances. The Code comprises a set of principles built around four pillars covering key elements of fiscal transparency: (i) fiscal reporting; (ii) fiscal forecasting and budgeting; (iii) fiscal risk analysis and management; and (iv) resource revenue management.⁸ The Code, which draws on the GFS framework, is part of the IMF's efforts to strengthen fiscal surveillance, support policymaking, and improve fiscal accountability.
- **Launch of the second phase of the G-20 Data Gaps Initiative (DGI-2):** The G-20 DGI aiming at supporting enhanced policy analysis was launched in 2009 to address data gaps revealed by the global financial crisis. In September 2015, the G-20 Finance Ministers and Central Bank Governors endorsed the DGI-2 after the successful conclusion of the first phase. The key objective of DGI-2 is to implement the regular collection and dissemination of comparable, timely, integrated, high-quality, and standardized statistics for policy use. It encompasses 20 new or revised recommendations, including recommendations on *GFSM 2014*-compliant general government operations and debt data, as well as sectoral accounts flow and stock data where government is a key contributor to, and has interlinkages with, the whole economy.
- **Development of a template to collect data on government revenue from natural resources:** In 2014, the IMF and the Extractive Industries Transparency Initiative (EITI) launched the template to collect natural resource revenue data based on the revenue classification of *GFSM 2014* to improve transparency and consistency of such data. Six pilot country cases have been successfully conducted, and the experiences from these cases have been reported to the Board.⁹

⁶ Appendix 1 of [GFSM 2014](#) provides the detailed descriptions about the changes between *GFSM 2014* and *GFSM 2001*.

⁷ Austria, Bulgaria, Canada, Czech Republic, Denmark, France, Germany, Italy, Japan, Netherlands, Portugal, Spain, Sweden, and the United States.

⁸ Pillars I-III have been issued, while a draft of Pillar IV is under public consultation.

⁹ [Update on the Standard Template to Collect Data on Government Revenues from Natural Resources](#).

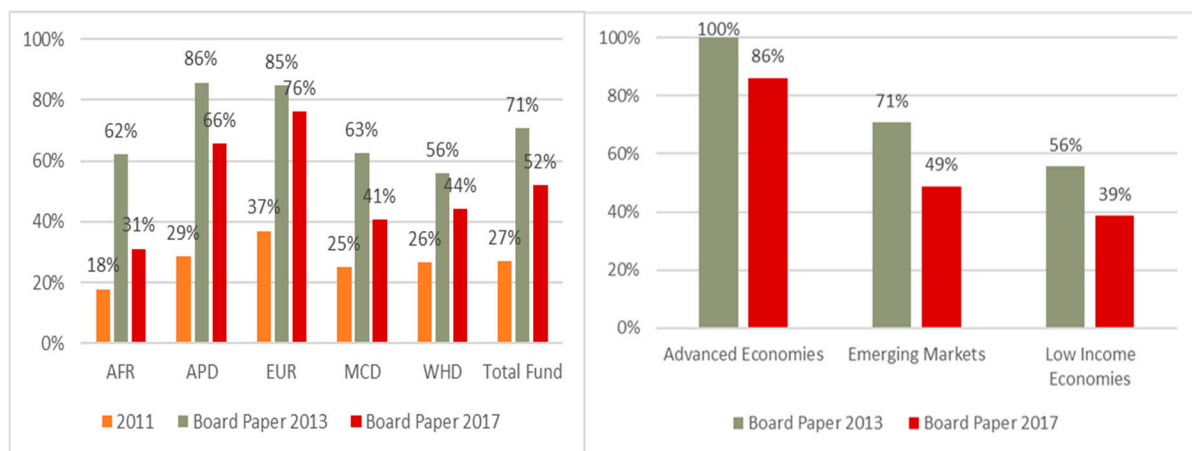
- Further alignment of International Public Sector Accounting Standards (IPSAS) and GFS:** There is a continuing emphasis on harmonizing IPSAS and GFS reporting guidelines. All remaining differences between IPSAS and the GFS framework have been identified, and a tracking table identifying outstanding differences is now regularly published as part of the IPSAS Board (IPSASB) meeting documentation. IPSASB has adopted a formal process for considering GFS reporting guidelines during development of the new IPSAS standards to facilitate further alignment and to avoid the creation of new unnecessary differences.

STATUS OF IMPLEMENTATION OF THE 2010 BOARD DECISION

A. Implementation in Staff Reports

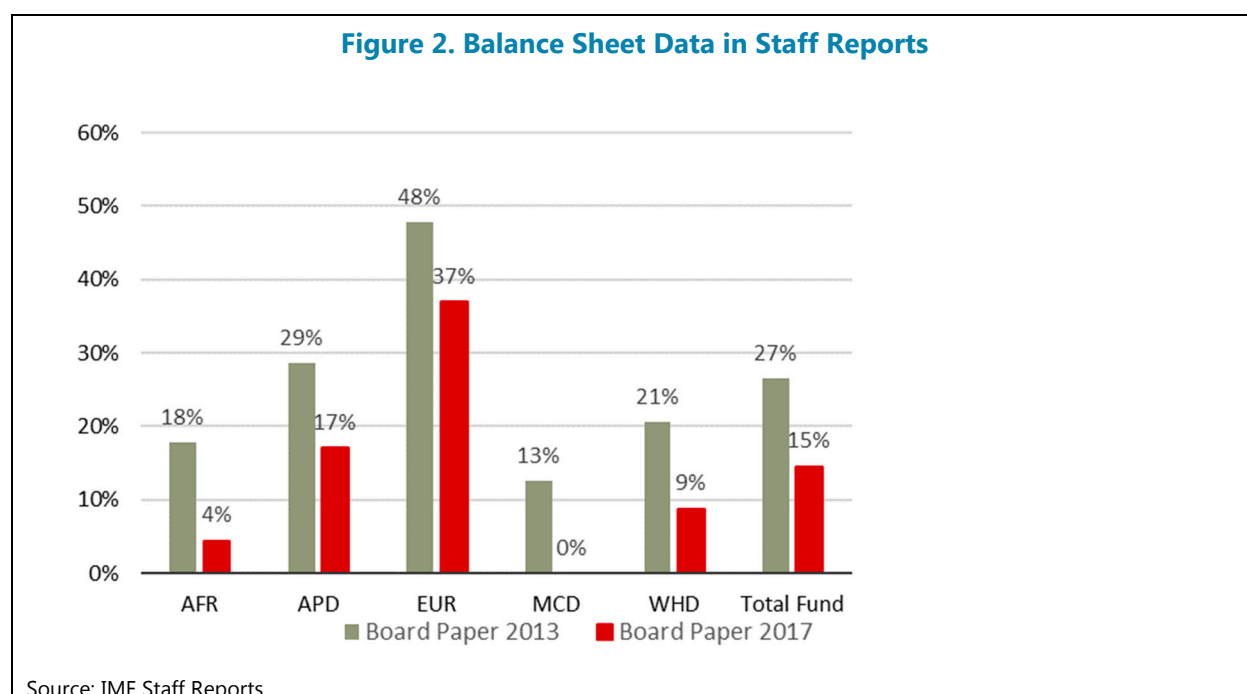
5. **The migration to a GFS presentation in staff reports has relapsed somewhat in 2017 compared to the 2013 review, although progress since 2011—the year following the 2010 Board decision—has been noticeable.** Analysis of staff reports as of end of January 2017 showed that the number of reports presenting fiscal data in the GFS presentation has declined from 136 staff reports in 2013 (71 percent of all staff reports) to 100 staff reports in 2017 (52 percent of all staff reports). This pattern is evident across all area departments and country groups (Figure 1). Looking back further, during the period 2011–13, an extraordinary effort was provided by the Statistics Department (STA), whereby a special help desk was established to provide support to country teams, including hands-on upgrade of fiscal files and data. This contributed to a sizable jump in the number of the staff reports using the GFS presentations. Following the end of that extraordinary effort, some country teams may have encountered difficulties in maintaining their fiscal files in the GFS format for the various reasons discussed in section C.

Figure 1. Status of Implementation of the GFS Presentation in Staff Reports

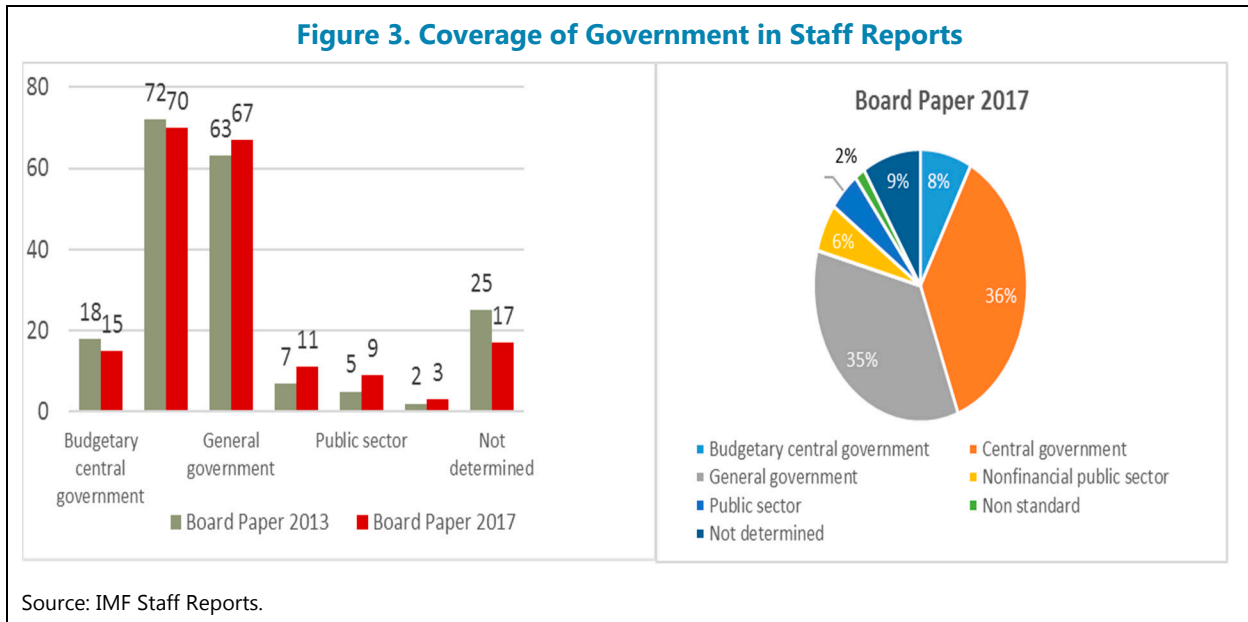


Source: IMF Staff Reports.

6. Staff reports are also disclosing less balance sheet data reflecting a decrease in available information when compared to the 2013 review. Balance sheet data in staff reports decreased from 27 percent in the 2013 review to 15 percent in the 2017 review (Figure 2), indicating that the usefulness of the GFS framework as an analytical tool for balance sheet analysis has not been internalized by all country teams. When balance sheet data were included in staff reports, the focus was primarily on presenting the concept of gross debt, with limited analysis or discussion of alternative debt measures. A survey among IMF country teams (Appendix I) indicated that the main reason for not including balance sheet data is that authorities are not producing these data on a regular basis. In countries where the accounting system does not allow the production of a balance sheet, the collection of such data would require a great deal of coordination among various agencies, such as the central bank, the debt or asset management agencies, and the ministry of finance, which may be challenging. Nonetheless, roughly 70 countries are currently reporting balance sheet information to the GFS database maintained by STA, indicating a scope for improving the reporting of such data in staff reports.



7. Coverage of fiscal data has slightly improved with more staff reports covering general government or beyond. Currently, 45 percent of staff reports cover the general government sector or the public sector, which is a slight increase from 2013 (Figure 3). At the same time, country teams increasingly specify the level of government covered in the report and analysis, as shown by the decrease in the number of staff reports with coverage not being determined.



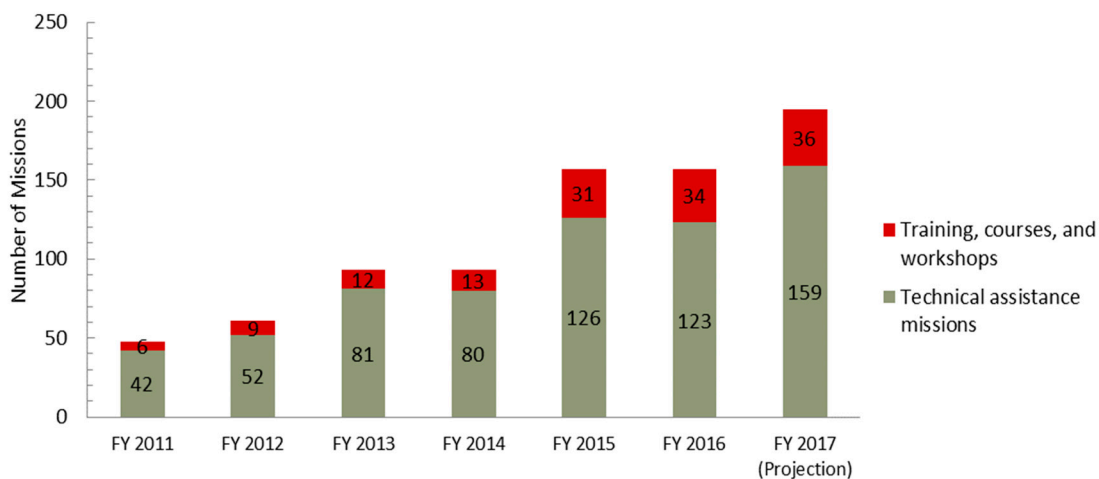
B. Capacity Development to Support Countries in Implementing GFS

8. Technical assistance (TA) and training were seen as instrumental in supporting the GFS migration strategy. To this end, since the first Board paper in 2010, STA and FAD have significantly stepped up their capacity development (CD) to countries, with a particular focus on low- and lower middle-income countries where GFS methodological and data gaps and quality issues were most prevalent. It was envisaged that achieving results, such as migrating to the GFS methodology, moving GFS to a broader coverage, improving timeliness and quality, and ultimately using GFS for policy formulation and analysis, would require a sustained engagement and multi-year effort. At the same time, several challenges complicated the trickling through of this CD effort to the policy-making level, as outlined in the next section.

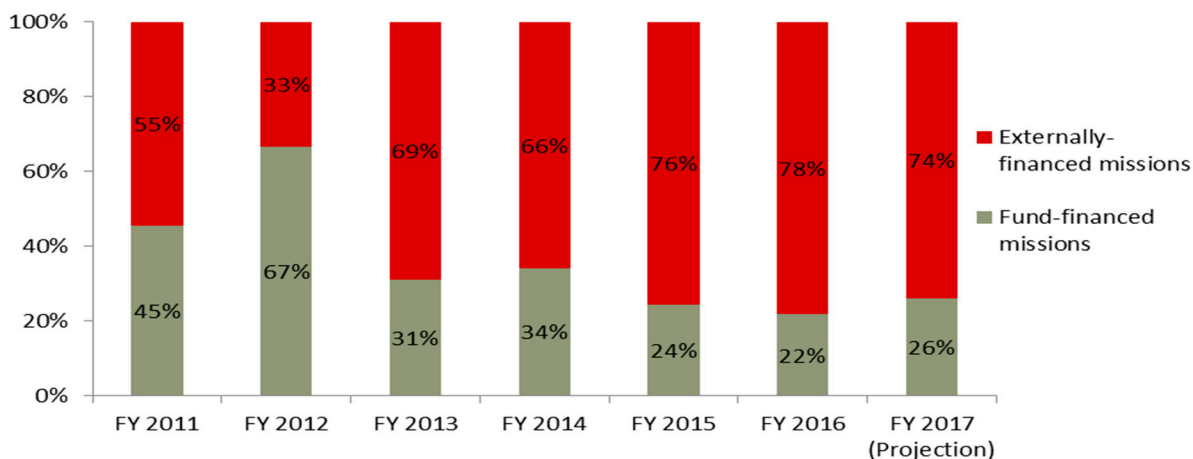
9. The number of CD missions to support the implementation of GFS conducted by STA almost quadrupled between FY 2011 and FY 2017 (Figure 4). This reflects both higher demand for TA and training, often in the context of Fund surveillance and program work, and CD projects executed with the generous financial support of donors, including the European Union, Japan, Switzerland, and the United Kingdom. The regional technical assistance centers also played a significant role.

Figure 4. GFS-Related Capacity Development Activities by STA

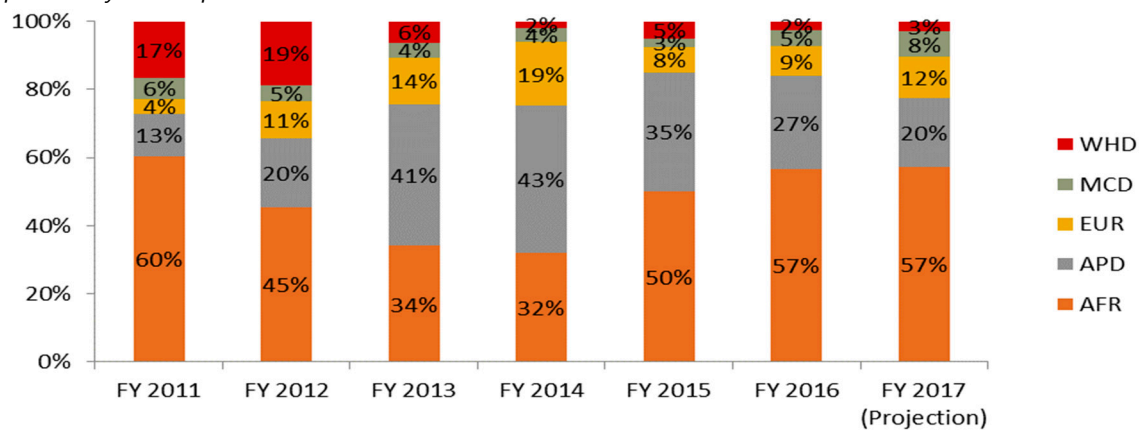
Number of missions



Composition by financing sources



Composition by area department



Source: Resource Allocation Plan of STA.

10. Recent years have seen a shift in CD activities towards better integration of the authorities' needs for enhancing statistical data for policy-making and data needs for Fund surveillance. This has required concerted efforts by country authorities, IMF country teams, and the IMF TA departments, which were a key factor leading to successful implementation of the GFS framework (Box 1).

Box 1. Integrating GFS Capacity Development and Fund Surveillance in Pacific Island Countries

Building on intensive CD work, several Pacific Island Countries have started compiling fiscal data based on the GFS methodology and classifications, and are providing these for Fund surveillance. The sectoral coverage has been broadened, and balance sheet data, which have proven essential for the analysis of key fiscal issues, have been compiled in a few countries.

Federated States of Micronesia

The Federated States of Micronesia (FSM) is a federation of four island states. Compiling GFS for the general government (consolidated federal and state governments) has long been a challenge due to geographical and capacity conditions. FSM received intensive GFS technical assistance under a STA CD project funded by the Japanese government (JSA), which ended in late 2015. As a result, FSM has been able to compile GFS data starting in 2008 for both central and regional governments. More recently, the GFS data started to cover full balance sheets, including nonfinancial assets. The balance sheet data in GFS have proven particularly useful for Fund staff to provide analysis and policy advice on FSM's vulnerabilities to natural disasters and climate change.

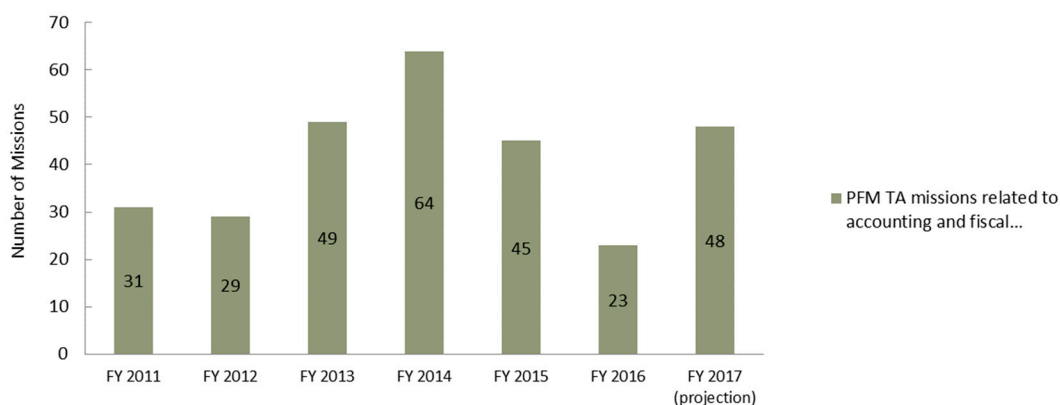
Timor-Leste

Timor-Leste also received intensive GFS technical assistance under the JSA project. With the authorities' continued efforts to build capacity, Timor-Leste started disseminating quarterly government operations data using the GFS framework, covering the central government budget, the Petroleum Fund, and the Donor Fund. Building on this development, and with continued technical assistance through the Pacific Financial Technical Assistance Center, Timor-Leste is expected to migrate its fiscal data reporting to the GFS framework during the upcoming Article IV consultation.

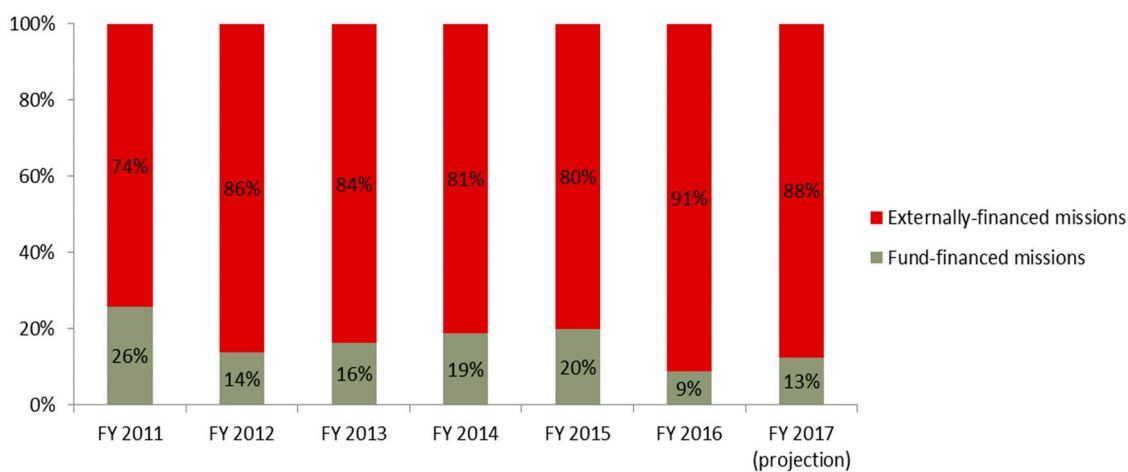
11. TA by the Fiscal Affairs Department (FAD) on accounting and fiscal reporting has also contributed to the implementation of the GFS migration strategy. Accounting reforms can facilitate the enhancement of source data needed for compiling high-quality GFS data. In this context, FAD TA has been supporting authorities' reforms in public accounting and fiscal reporting (Figure 5), in areas such as institutional coverage, transaction coverage, chart of accounts, accounting policies, and integrated financial management information systems (IFMIS). These reforms are typically complex and can only be implemented over the medium term.

Figure 5. Capacity Development Activities Related to Accounting and Fiscal Reporting by FAD¹

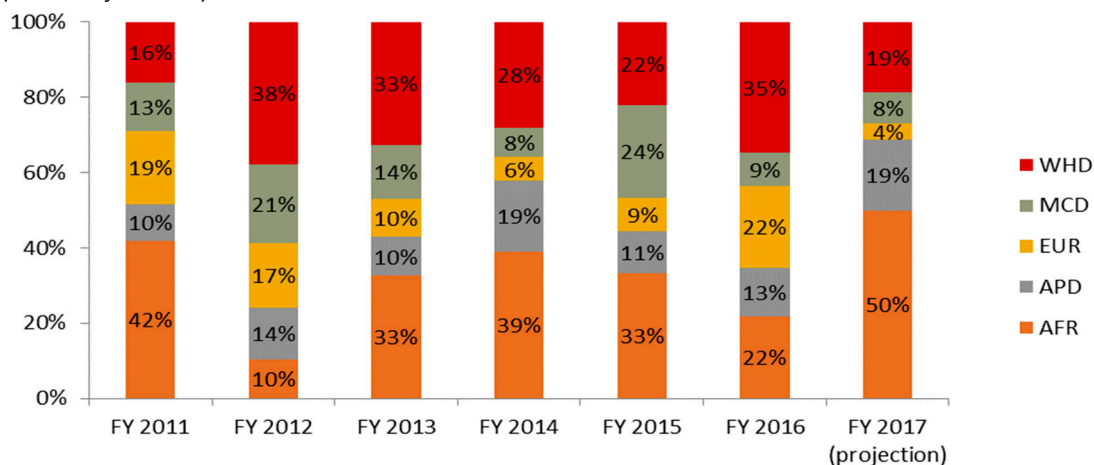
Number of missions



Composition by financing sources



Composition by area department



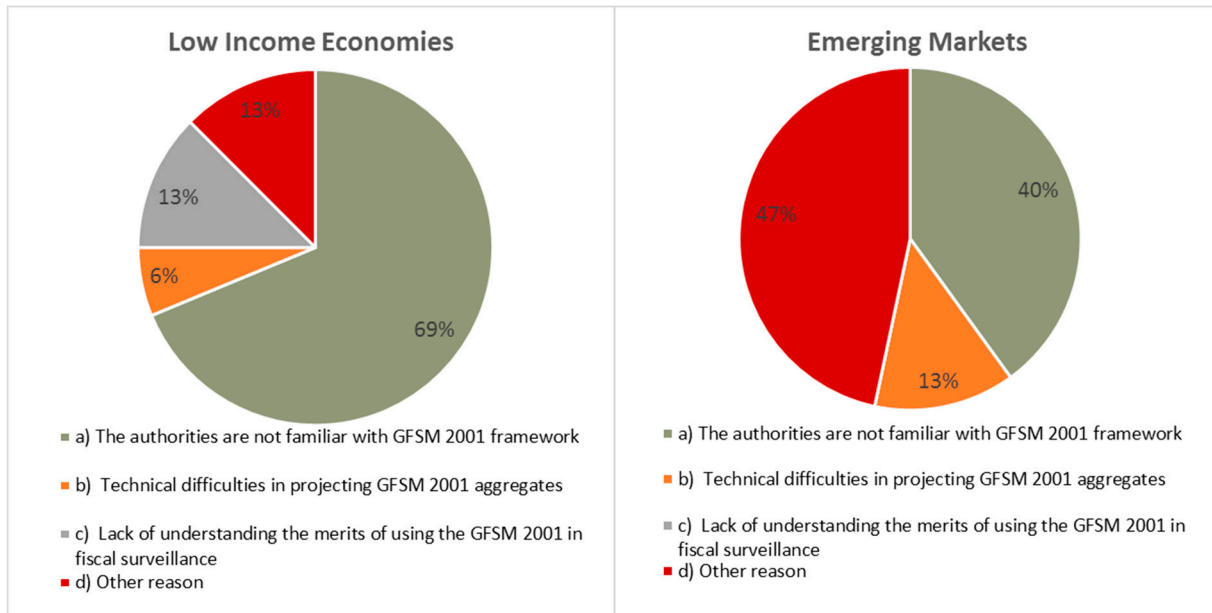
Source: Resource Allocation Plan of FAD.

¹ The numbers include both FAD's headquarters technical assistance missions and short term expert visits.

C. Challenges in the Implementation of GFS

12. The country desk survey indicated that GFS implementation is often hampered by the fact that policy discussions are based on fiscal presentations that deviate from the GFS framework. Country authorities often produce fiscal data for policy purposes based on national definitions and coverage, and are oftentimes not familiar with the GFS framework. This is reported as the main reason for GFS not being used in fiscal analysis by 54 percent of total respondents, with this ratio being much higher for the low-income country group relative to the emerging markets group. Other issues, such as “policy discussion are not based on *GFSM 2001*,” “analysis is based on the indicators as defined by the program,” and “timeliness of the data based on GFS,” were also cited as obstacles for the use of GFS in fiscal analysis.

Figure 6. Country Desk Survey Results on the Main Obstacles for Using the GFS Framework in Fiscal Analysis¹



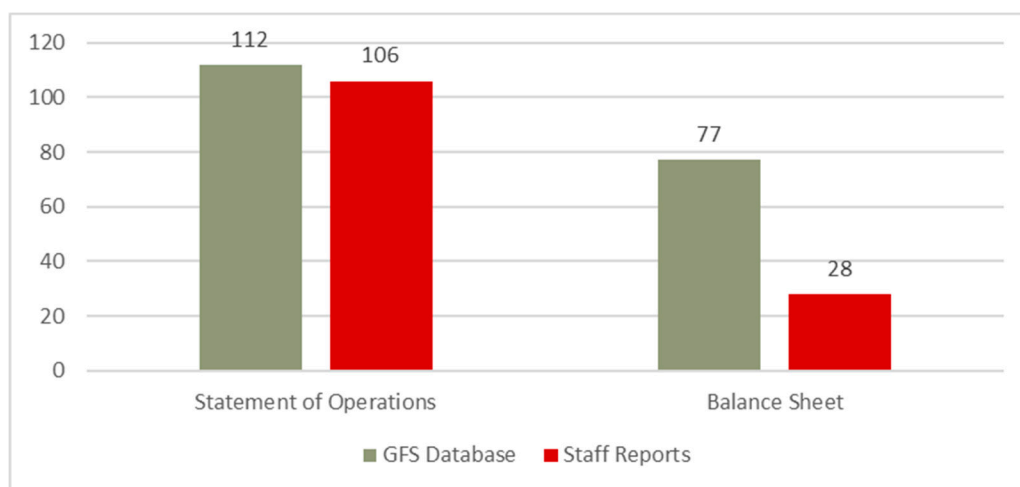
Source: Country desk survey.

¹ Only one advanced country desk in the survey sample replied that they do not use the GFS in fiscal analysis.

13. Segregation of the responsibility for GFS data compilation in countries may add to these issues. More in-depth analysis of the desk survey responses revealed that more than half of the countries with perceived unfamiliarity with GFS framework in fact do report GFS data to the annual GFS database, although some data are reported with long lags. This indicates that while these countries are making efforts to produce GFS data at the technical level, the policy makers might not be aware of these efforts or chose for other reasons that they do not want to adopt a different reporting framework. It may also point to a need to enhance communication between data producers and data users in countries.

14. Country teams often face technical difficulties related to the migration of the fiscal file to the GFS framework. A main concern is related to the break in time series and to not being able to bridge the presentational differences. In addition, the legacy of the fiscal files with complex links to other sectors' data can be a constraint in motivating the country teams to migrate to a new GFS presentation. Nonetheless, there is a potential to better utilize GFS data produced by country authorities in staff reports. For example, while more than 70 countries currently report balance sheet information for publication in the annual GFS database, only 28 country teams have introduced balance sheet data in staff reports (Figure 7).

Figure 7. Reporting to the GFS Database in 2016 and the GFS Presentation in Staff Reports



Sources: GFS database and IMF Staff Reports.

15. Using a variety of reporting systems to determine benchmarks in policy discussions may compromise cross-country comparability. The GFS framework provides a harmonized and standardized reporting framework resulting in standardized definitions and calculations of the surplus or deficit and other aggregates and balances. It also provides a comprehensive explanation of changes in a government's balance sheet during the course of the fiscal year, in contrast to more traditional reporting in which the change in debt is not always explained by the surplus or deficit concept being used (see also Box 2).¹⁰ Nevertheless, countries may not always be keen to adopt the GFS definitions for policy purposes, especially if they contradict the announced fiscal policy based on national definitions, and/or require substantial investment in systems and human resources to implement. The existence of a range of different methodologies for calculating and presenting countries' fiscal statistics has made the implementation of the GFS framework more challenging relative to other macroeconomic statistics standards where uniform definitions and calculations are usually adopted both by countries and country teams, such as the 2008 *SNA*, or the *Balance of Payment Manual, Sixth Edition (BPM6)*.

¹⁰ IMF Working Paper "[Stock-Flow Adjustments, Government's Integrated Balance Sheet and Fiscal Transparency](#)" Mike Seiferling, WP/13/63.

16. The heterogeneity of definitions used to formulate fiscal policy in staff reports is not desirable, as it can increase the risk of uneven policy advice to member countries with similar issues. Fund surveillance would be improved through the implementation of a standardized analytical framework in lieu of national/customized definitions. While policy discussions are facilitated by using frameworks that the authorities are familiar with, this may entail less economically accurate concepts and definitions, based on exceptions agreed to in the surveillance of other countries.¹¹ The use of harmonized concepts and definitions would contribute to a more even-handed treatment in fiscal analysis, and to enhance fiscal transparency (Box 2).

D. Successful Cases of Implementing the GFS Framework

17. In spite of challenges, a number of countries have made significant progress with implementing the GFS framework. These cases highlight the advantages of implementing GFS as a framework and tool to formulate, implement, and report fiscal policy (Box 3). The use of GFS has yielded tangible benefits by providing a consistent framework for budgeting, accounting, and statistical reporting, thereby increasing the transparency and credibility of government fiscal policymaking. More detailed information on the selected countries is presented in Appendix II.

USE OF THE GFS FRAMEWORK IN FISCAL SURVEILLANCE AND TRANSPARENCY INITIATIVES

A. Analytical Shift in Fiscal Surveillance and Analysis

18. The global financial crisis highlighted the importance of high-quality and transparent fiscal data and analysis to appropriately assess countries' underlying fiscal position and potential fiscal risks.¹² It is now widely recognized that fiscal surveillance should expand from the traditional focus primarily on cash-flows for operations and financing, and a narrow definition of debt, towards a more comprehensive reporting framework encompassing the relationship between government's economic transactions, deficits, and other flows that have an impact on their stocks of assets and liabilities, and the disclosure of potential fiscal risks. Surveillance should take into consideration a comprehensive analysis of balance sheets, cross-sector linkages, and spill-overs, and the analytical focus should also move toward the long-term sustainability of fiscal policies. To this end, debt sustainability analyses (DSA), fiscal stress tests, and fiscal sustainability reports have been introduced and enhanced (Box 4).

¹¹ [IMF Technical Notes "Definitions of Government in IMF-Supported Programs" Claudia Dziobek, Alberto Jiménez de Lucio, and James Chan, IMF, May 10, 2013.](#)

¹² [Fiscal Transparency, Accountability, and Risks, IMF Policy Paper, November 2012.](#)

Box 2. Examples of the Impact of Deviation from International Standards in Fiscal Statistics**Example 1. Cross-country comparability and its impact on policy discussions**

One staff report noted that the country had a high level of cash payments for compensation of employees compared to other countries in the region, and the policy advice was given accordingly. A closer analysis revealed that certain pension benefit payments were included in the compensation numbers, a GFS misclassification, which overestimated the level of compensation by the government sector. According to the GFS framework, such pension payments in a cash-based reporting system should not be part of the compensation of employees, but should be classified as social benefits. The cross-country comparison, which was used as the basis of policy advice, was not fully accurate, since the other countries used different classifications.

Example 2. Impact on the overall balance

The GFS framework facilitates the calculation of various fiscal indicators that measure the impact of transactions on government finances. The table below illustrates the impact of classifying lending minus repayment¹ (so-called "policy lending") "above-the-line." According to the GFS framework, such lending could potentially create a financial asset and should therefore be part of financial transactions reported "below-the-line." In the example from an actual staff report, the use of a non-standard presentation resulted in an overall balance of -1.6 percent of GDP in 2015. In contrast, the use of a GFS presentation resulted in an overall balance measure (net lending/borrowing) of -1.2 percent of GDP for the same year.

The impact on the deficit/surplus using GFS versus a nonstandard presentation

| | Nonstandard presentation | | | GFS presentation | | | |
|--|--------------------------|-------------|-------------|--|-------------|-------------|-------------|
| | 2013 | 2014 | 2015 | | 2013 | 2014 | 2015 |
| Percent of GDP | | | | Percent of GDP | | | |
| Revenue | 23.8 | 19.8 | 20.8 | Revenue | 23.8 | 19.8 | 20.8 |
| Total expenditure and net lending | 22.1 | 23.1 | 22.3 | Total Expenditure | 21.2 | 22 | 22 |
| Current expenditure | 17 | 15.8 | 16.1 | Expense | 17 | 15.8 | 16.1 |
| Capital expenditure | 4.2 | 6.2 | 5.9 | Net Operation Balance | 6.8 | 4 | 4.7 |
| Lending minus repayment | 0.9 | 1 | 0.4 | Net Investment in Nonfinancial assets | 4.2 | 6.2 | 5.9 |
| Overall Balance | 1.7 | -3.2 | -1.6 | Net Lending/Borrowing | 2.6 | -2.2 | -1.2 |
| | | | | Net acquisition of financial assets, of which | 1.5 | 1.4 | 0.9 |
| | | | | <i>Lending minus repayment</i> | <i>0.9</i> | <i>1</i> | <i>0.4</i> |
| | | | | Net incurrence of liabilities | -1.1 | 3.6 | 2.1 |

¹ In some cases, lending minus repayment might include an element of capital transfer, which should remain above the line as part of expenditures.

Box 3. Implementing the GFS Framework: Successful Country Cases

Georgia: A subscriber to the IMF's Special Data Dissemination Standard since 2010, Georgia has been compiling and disseminating monthly, quarterly, and annual general government operations data using the GFS framework in monthly, quarterly, and annual frequency. In addition, Georgia plans to increasingly incorporate accrual measures of fiscal performance in the coming years, highlighting the government's commitment to fiscal transparency.

Iceland: Iceland recently adopted the GFS framework and classifications as the main presentation of the fiscal policy statements and the budget. Under Iceland's organic budget law of 2015, for a variety of fiscal policy documents, the fiscal targets are defined and tables are presented in line with the GFS methodology and classifications. The full implementation of the GFS framework throughout the policy formulation and monitoring cycle is expected to contribute to preserving fiscal discipline and promoting fiscal sustainability, through increased transparency and enhanced credibility of fiscal policy.

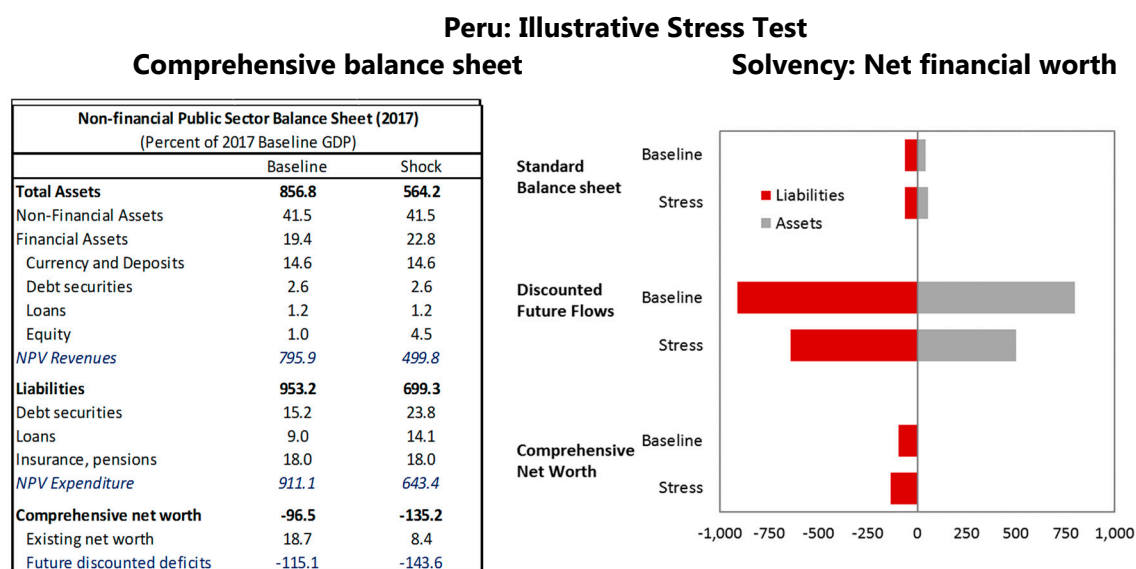
Mexico: In Mexico, the fiscal policy targets until 2014 were set using fiscal indicators following national methodologies, limiting fiscal policy analysis. For example, the breakdown of revenue and expenditures in the traditional balance was misleading. Adjustments, mostly for underreported expenditures and minimal revenue (In 2012, adjustments to the traditional deficit accounted for 1.1 percent of GDP), were developed gradually as a way to get a better estimation of the actual financial performance of the public sector. Over time these adjustments grew in magnitude and accounted for a large part of imbalances, leading to difficulty in assessing the fiscal stance over the cycle. This has led the authorities, in collaboration with FAD, to begin the process of redefining fiscal policy targets. In 2013, the Fund team adopted a GFSM presentation in the fiscal tables for policy analysis, and in 2014, the authorities introduced in their budget law a new fiscal policy target in line with the GFS methodology (Public Sector Borrowing Requirements (PSBR)).

Rwanda: Rwanda has gradually developed GFS and integrated it with the budgetary process. The transition started in 2007 helped by IMF TA. In the context of the regional commitment among the East African Community countries to harmonize fiscal data reporting based on GFS, Rwanda moved ahead toward adopting this framework in the state budget and annual financial statement. Technical assistance from the Africa Regional Technical Assistance Center (AFRITAC) East has been instrumental in supporting the authorities' effort. For the first time, the state budget for FY2015/16 was closely aligned with the methodology and classifications of the *GFSM 2014*.

Senegal: Senegal has successfully migrated to the GFS framework and adopted it for setting the fiscal targets under the Policy Support Instrument (PSI). This was enabled by a strong collaboration among the authorities, the Senegal country team, and functional departments of the IMF. Over several years, Senegal had built capacity to incorporate the GFS methodology and classifications in the government budget and accounting systems with the help of technical assistance and training by STA and AFRITAC West. The Senegal team first identified the window of opportunity in 2015 between two programs under the PSI. The authorities were very supportive of the migration, as it would assist them complying with the West African Economic and Monetary Union directive adopted in 2009, which stipulated that member countries harmonize their fiscal statistics using a common reporting format based on GFS.

Box 4. Balance Sheet Concept in the Fiscal Stress Test (FST)

The standardized concepts and definitions of the GFS are extensively used in fiscal risk analysis. One example is the use of the balance sheet concept in the FST. The FST integrates analysis of historical data on the realization of contingent liabilities and macroeconomic shocks to examine the impact of such shocks on fiscal flows and stock variables, such as government liabilities, assets, and overall net worth. The table and figure below illustrate the stress test for Peru for both fiscal balance and public debt.



Source: "Analyzing and Managing Fiscal Risks—Best Practices." IMF Policy Paper, June 2016.

19. The need for balance sheet statistics that illustrate fiscal risks and potential spillovers has been emphasized in various projects in the Fund. Governments are key sources and users of funding for economic activities, as well as holders of nonfinancial assets, implying that they play an essential role in understanding wealth and financial markets. The 2014 Triennial Surveillance Review (TSR) found that surveillance should be "smarter" and be based on analysis and expert advice that is enriched and tailored to country circumstances. To this end, the TSR has identified the need for integrating and deepening risk and spillover analysis as central to Fund surveillance and has called for reviving and modernizing balance sheet analysis. This was followed in June 2015 by the policy paper¹³ on the use of balance sheet analysis in Fund surveillance, which affirmed that balance sheets convey vital information about economic prospects and risks. The policy paper illustrated how the balance sheet matrix showing asset and liability positions in and between key sectors can generate additional indicators for economic analysis. The indicators of linkages, maturity, and currency mismatches, positions vis-a-vis the rest of the world, and bilateral linkages between sectors illustrate risks and potential spillovers, and how they spread across countries and sectors.

20. Balance sheet analysis requires complete and consistent source data for all sectors, including the general government sector. In particular, data gaps, such as information on specific

¹³ [Balance Sheet Analysis in Fund Surveillance, IMF Policy Paper, June 2015.](#)

categories of assets and liabilities, can be identified through the use of the GFS framework and filled over time to be used in the balance sheet analysis (Box 5). This would capture both balance sheet and off-balance sheet exposures. Expanding the country coverage of balance sheet data will help making this analytical tool more widely available for countries.

Box 5. Example of Use of Balance Sheet Data in Forecasting

The use of balance sheet data can provide an additional tool to policymakers for fiscal policy decisions and analysis. It broadens the scope of analysis by including additional measures, such as net worth or financial net worth, to the traditional debt/fiscal balance focus. It also facilitates a more integrated approach to asset and liability management and inform policy decision making by showing costs and benefits of policies (e.g., the cost of potential contingent liability realization, or loan portfolios not appropriately valued). The table below illustrates how Australia produces forecast balance sheets to guide fiscal policy making and to assess its long-term fiscal sustainability using indicators such as net financial worth or net debt.

Australia's balance sheet forecast

| | Estimates | | | Projections | |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|
| | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
| | \$b | \$b | \$b | \$b | \$b |
| Financial assets | 342.6 | 383.4 | 414.0 | 432.2 | 453.4 |
| Non-financial assets | 122.9 | 126.2 | 130.6 | 134.9 | 139.7 |
| Total assets | 465.4 | 509.6 | 544.6 | 567.2 | 593.1 |
| Total liabilities | 730.4 | 810.6 | 859.2 | 886.6 | 909.2 |
| Net worth | -265.0 | -300.9 | -314.6 | -319.4 | -316.1 |
| Net financial worth(a) | -387.9 | -427.2 | -445.2 | -454.3 | -455.8 |
| Per cent of GDP | -23.5 | -24.8 | -24.6 | -24.0 | -22.9 |
| Net debt(b) | 285.7 | 326.0 | 346.8 | 356.4 | 355.1 |
| Per cent of GDP | 17.3 | 18.9 | 19.2 | 18.8 | 17.8 |

21. The DSA, a standard tool for Fund policy advice, program design, and surveillance, will continue to benefit from the implementation of the GFS framework. The GFS framework provides standard concepts and definitions for valuation, debt instruments and institutional coverage for the data underlying a DSA, thus facilitating cross-country comparability. In addition, the broader definition of debt following the GFS framework would capture a wider range of fiscal risks in the DSA rather than just focusing on the two most common debt instruments: securities and loans.¹⁴

22. The ever-increasing complexities of governments' operations requires enhancements to fiscal analysis and reporting frameworks. Traditional fiscal reporting frameworks, which focus on cash flows and the stock of debt, cannot fully capture the many complex operations that

¹⁴ Following the GFS definition, six financial instruments comprise gross debt, which are (i) Special Drawing Rights, (ii) currency and deposits, (iii) debt securities, (iv) loans, (v) insurance, pension, and standardized guarantee schemes, and (vi) accounts payable. The traditional DSA framework covers mostly securities and loans.

governments undertake nowadays, such as securitizations, public private partnerships, debt assumptions, or financing arrangements through derivatives, and therefore, fiscal risks can often be underestimated. The integrated GFS framework provides a comprehensive analytical framework well suited to capture these complex economic activities, by linking cash and non-cash flows as well as stock positions.

23. Broader fiscal analysis also draws on the GFS framework. Recent analytical work, which made extensive use of the GFS framework, includes:

- **Public investment management (PIM):** the integration of stocks and flows of fixed capital, including not only acquisitions and disposals but also the consumption of fixed capital as well as price and volume changes, has been key for the staff estimates of public and private capital stock, feeding the analysis of trends and efficiency of public investment. Furthermore, the *GFSM 2014* classification principles for both institutional units, transactions, and assets have been embedded in several of the institutions analyzed in PIM Assessments (PIMA);¹⁵
- **Wage bill and payroll:** the holistic approach to compensation of employees (including not only wages and salaries and actual social contributions but also an imputation of additional social contributions required to cover social benefits paid to civil servants directly out of budget resources) was adopted in various public databases based on the GFS or the SNA. This has allowed staff to analyze long series of data comparable across more than 130 countries in recent IMF research on wage bill and payroll reforms;¹⁶
- **Resource revenue management:** the adoption by the EITI of a GFS-based template for collecting data on government revenue from natural resources has improved the transparency of disclosure of those revenues.¹⁷

B. The Fiscal Transparency Code as a Supporting Tool for Fiscal Analysis

24. Recent international initiatives on fiscal transparency adopted the GFS framework as the reference framework. The 2013 review of the Fiscal Transparency Code (FTC)¹⁸ and its accompanying fiscal transparency evaluation (FTE) tool reflected the latest advances in fiscal management and international statistical standards. This includes a direct reference to the GFS framework for defining the Code's principles and standards of practice in fiscal reporting. Other fiscal standards and evaluation tools, such as the Public Expenditure and Financial Accountability and the Open Budget Survey, also use the same reference, particularly for assessing the fiscal reporting practices.

¹⁵ [Making Public Investment More Efficient, IMF Policy Paper, June 2015.](#)

¹⁶ [Managing Government Compensation and Employment, IMF Policy Paper, April 2016.](#)

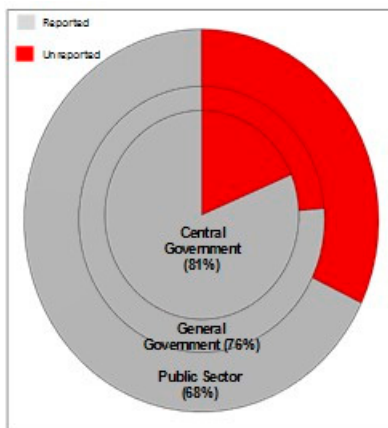
¹⁷ [Update on the Standard Template to Collect Data on Government Revenues from Natural Resources.](#)

¹⁸ The [Fiscal Transparency Code](#) was approved by the Board in 2014.

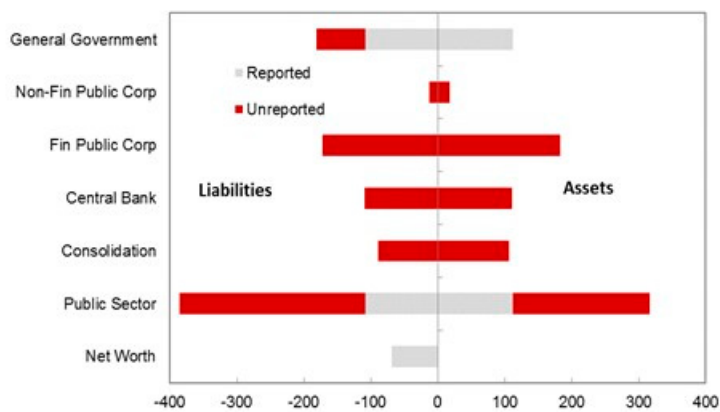
25. FTEs have been particularly useful to measure gaps in the coverage of fiscal reporting and to prioritize reforms. The FTC places greater emphasis on fiscal reporting, in particular the coverage and quality of published information, as a measure of fiscal transparency. One key feature of the FTE is to measure the quality of the fiscal reports using the GFS framework as the benchmark. Quantifying gaps in the coverage of fiscal reports in terms of institutional units, flows, and stocks (Figure 8) can help inform targeted fiscal transparency action plans (Figure 9) so as to address the main shortcomings.

Figure 8. Illustration of Gaps in Fiscal Reporting in FTEs

Guatemala: Coverage of expenditures in fiscal statistics



Ireland: Coverage of assets and liabilities in fiscal reports



Source: Guatemala FTE Report, Ireland FTE Report.

Figure 9. Gaps in Fiscal Reporting Inform FTE Recommendations

| | Principle | Assessment | Importance | Rec |
|-------|--------------------------|--|--|-----|
| 1.1.1 | Coverage of Institutions | Good: Fiscal statistics consolidate all general government institutions | High: Publicly-controlled entities with net expenditure of 12% of GDP outside fiscal statistics | 1 |
| 1.1.2 | Coverage of Stocks | Good: Fiscal reports cover all financial assets and liabilities | High: Public liabilities of 279% of GDP outside fiscal reports | 2 |
| 1.1.3 | Coverage of Flows | Basic: Fiscal reports cover all cash revenues and expenditures | High: Accrued general government expenses of 1.1% of GDP outside fiscal statistics | 3 |

Source: FTE Reports.

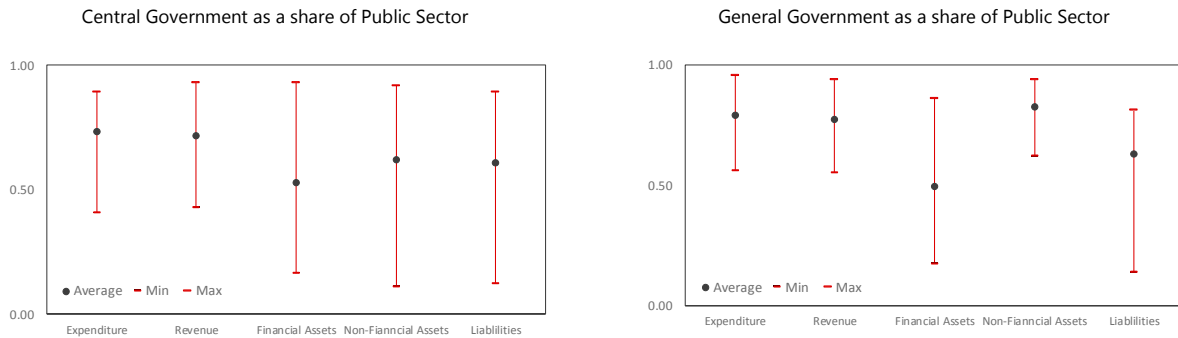
26. Improvements in fiscal reporting practices resulting from transparency initiatives can help strengthen staff's analyses of public sector finances. For example, most of the 20 FTEs undertaken so far have emphasized the institutional coverage of fiscal reporting as an area of high importance, with public sector coverage constituting advanced practice according to the Code. At the same time, several countries fell short of even basic practice (central government coverage) or good practice (general government coverage) (Figure 10), leading to recommendations for improvements in this area. The pursuance of these recommendations will result in the increased availability of data beyond the central government (Figure 11), thus facilitating a more comprehensive analysis of the fiscal activities of the public sector and its sub-sectors.

Figure 10. FTE Recommendations for Institutional Coverage Extension

| Level of Importance | Fiscal Reporting | | | | | |
|---------------------|--------------------------|------|--------------------|------|-------------------|-----|
| | Coverage of Institutions | | Coverage of Stocks | | Coverage of Flows | |
| High | Not Met (4) | (16) | Not Met (1) | (12) | | (9) |
| | Basic (3) | | Basic (3) | | Basic (7) | |
| | Good (7) | | Good (7) | | Good (1) | |
| | Advanced (2) | | Advanced (1) | | Advanced (1) | |
| Medium | Basic (2) | (2) | Basic (2) | (6) | Basic (5) | (7) |
| | | | Good (4) | | Good (2) | |
| | | | | | | |
| Low | | (2) | | (2) | Basic (1) | (4) |
| | | | | | Good (1) | |
| | Advanced (2) | | Advanced (2) | | Advanced (2) | |

Source: FTE Reports.

Figure 11. FTE Results: Size of Subsectors Beyond Central Government



Source: FTE Reports.

WAY FORWARD TO FURTHER TAILOR IMPLEMENTATION TO NATIONAL CAPACITY AND SURVEILLANCE NEEDS

27. A staggered implementation consistent with country and area department needs will be developed. Although acknowledging the usefulness of the GFS framework as a fiscal tool to detect and analyze fiscal vulnerabilities and risks, country teams have emphasized the need to tailor coverage and implementation of the framework to country circumstances. In this context, the proposed staggered approach will emphasize: (i) more tailored CD focusing on identifying fiscal vulnerabilities and risks related to data coverage and enhancing the underlying source data used in fiscal analysis; (ii) enhancing awareness regarding the usefulness of GFS through internal training and external outreach; and (iii) closely coordinating CD activities between STA, FAD, and area departments.

28. Moving forward, the focus should be on optimizing the use and sequencing of available CD resources by further tailoring them to recipient countries' specific circumstances and integration with Fund surveillance. Building on the CD provided to date, the updated migration strategy would include more tailored CD in line with well-identified needs of the countries while empowering country teams with the knowledge needed to make good use of the analytical value of the GFS framework relative to currently used approaches. While in one country expanding institutional coverage may be the priority due to the size of subnational governments and/or public corporations, and the potential fiscal risks this entails, the priority in other countries may be to improve the quality of the source data used in producing GFS. The effectiveness of CD work is expected to be further enhanced through the implementation of the results-based management (RBM) framework, which should provide the necessary guidance—through agreed-upon outcomes, indicators, and milestones—to support the prioritization and sequencing of CD efforts. Monitoring the results through indicators and milestones will help address gaps in the CD delivery and further tailor the CD to the need of countries to reach the desired objectives.

29. STA and FAD will develop a collaborative effort to highlight the value added of the GFS framework by increasing awareness and training inside and outside the Fund. The outreach inside the Fund will focus on increasing internal GFS training to economists in an effort to fully reap the benefits of the GFS framework as an analytical tool that could take fiscal surveillance to the next level. As for the external outreach, STA and FAD will develop a strategy aiming to highlight to policy makers the benefits and advantages of using fiscal analysis based on the GFS framework.

30. Close coordination of CD activities among the relevant area and functional departments will be sought to help a successful roll-out of the staggered GFS implementation strategy. As a first step, and in agreement with the African Department, five or six countries will be identified as pilots to conduct tailored CD activities in developing and enhancing the source data

needed for analysis of fiscal risks, and work toward improving the coverage,¹⁹ availability, quality, and timeliness of surveillance data, using the GFS framework. Beyond these pilot cases, STA will maintain its multi-year CD engagement with beneficiary countries, with a greater outcome focus in terms of implementation of the GFS framework being supported by the Fund's new RBM system. FAD will continue to provide TA in its core areas, which support the use of the GFS framework.

31. In summary, rather than using a uniform approach to further implementing the GFS framework, this review proposes: (i) developing a staggered migration strategy, including tailored capacity development inside and outside the Fund taking into consideration country-specific and fiscal surveillance needs; (ii) encouraging staff to continue the effort to routinely assess financial balance sheets during surveillance; (iii) gradually expanding the coverage of fiscal data, taking into consideration country-specific circumstances and fiscal risk assessments; and (iv) reaffirming the support for the phased implementation of the GFS over the medium term.

¹⁹ Further information on expanding coverage to better capture various fiscal risks can be found in the Paper [“Analyzing and Managing Fiscal Risks – Best Practices”](#) – IMF Policy Paper, June 2016.

Proposed Decision

The following decision, which may be adopted by a majority of the votes cast, is proposed for adoption by the Executive Board:

1. The Fund has reviewed progress under the Fund's migration strategy for implementation of the Government Finance Statistics Manual 2001 in accordance with Decision No. 15498, adopted December 6, 2013.
2. The Fund supports the tailored implementation of the GFS as described in SM/17/113, paragraph 31.
3. It is expected that the next review will be conducted by April 30, 2022.

Appendix I. Sources of Data Used in the Assessment

Staff analyzed 192 staff reports comprising the member countries in addition to four special jurisdictions: Aruba, Curacao and Saint Maarten, Hong Kong SAR, and West Bank and Gaza. In this context, the Board Paper analyzed the latest staff report of a country in a year, even if there were more than one staff report during a single year (i.e., review of Fund-supported programs). The analysis comprised both the GFS presentation for historical accounts as well as the Fund staff projections.

Staff conducted a survey among a sample of 81 countries representing all area departments. Representation of advanced economies, fragile states, PRGT eligibility, and emerging market countries was assured.

The survey requested information on:

- Possible reasons for not using *GFSM 2001* in fiscal analysis
- Possible reasons for the absence of balance sheet data
- Possible difficulties in expanding fiscal coverage
- Details on coverage, valuation of stocks, and accrual data

Table 1. Composition of the Sample of Countries by Area Departments and Level of Developments

| | AFR | APD | EUR | MCD | WHD | Total |
|-----------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Advanced Economies | 0 | 4 | 6 | 0 | 2 | 12 |
| Emerging Markets | 2 | 7 | 10 | 12 | 9 | 40 |
| Low Income Economies | 16 | 5 | 1 | 3 | 4 | 29 |
| Total | 18 | 16 | 17 | 15 | 15 | 81 |

This Board Paper also draws on information from countries' submissions to the annual GFS database and the result of 20 FTE's that have been conducted so far, as well as on the information related to CD activities of STA Government Finance Division and FAD Public Finance Management Divisions.

Appendix II. Successful Cases of GFS Implementation

A. Iceland

In 2015, the Icelandic Parliament approved a new organic budget law (OBL) which took effect in 2016 in the form of a Statement of Fiscal Policy (SFP) and a Fiscal Strategy Plan (FSP) and in 2017 in the Icelandic budget. The key feature of the OBL is the adoption of the GFS methodology and classifications according to the *GFSM 2014* as well as the IPSAS principles.

The main purposes of introducing the GFS methodology into the OBL were to: (i) have suitable tools for fiscal policymaking; (ii) have clear definitions of concepts and classifications in the budget based on GFS; (iii) facilitate consistency between budgeting, accounting and statistics with common understanding of the GFS methodology and classifications; and (iv) increase transparency of government fiscal policymaking and the government accounts by using both the GFS and the IPSAS as underlying principles.¹

The new OBL in Iceland²

Iceland's emergence from the 2008 economic crisis presented a unique opportunity to revisit the laws and procedures that shaped fiscal decision-making over the past decades. In the years before the crisis, fiscal policy in Iceland was characterized by pro-cyclicality, weak budget discipline, lack of coordination between levels of government, and inadequate surveillance and management of fiscal risks. Many of these shortcomings were due to weaknesses in the legal framework for budgeting. With the pressures of the crisis abating, there was a need to develop a new OBL—and replace the preceding financial reporting act which had failed to provide a credible, integrated framework for budgeting due to several weaknesses—to preserve fiscal discipline, restore fiscal sustainability, and prevent a reversion to the more permissive practices of the past.

To provide a more transparent and credible framework for macroeconomic and fiscal policymaking, the OBL included a comprehensive set of fiscal responsibility provisions:

- establishing a procedural fiscal rule anchored in a set of permanent principles for fiscal policymaking;
- requiring each newly elected government to submit to the Parliament an SFP setting out its numerical fiscal objectives for the tenure of the Parliament and demonstrating how they are consistent with the above principles;

¹ The *GFSM 2014* (paragraph 1.2) states: "The primary purpose of the *GFSM 2014* is to provide a comprehensive conceptual and reporting framework suitable for analyzing and evaluating fiscal policy, especially the performance of the general government sector and the broader public sector of any economy."

² The rationale for a new organic budget law is discussed in the IMF Country Report No. 12/4, "Iceland: Technical Assistance Report on a New Organic Budget Law," January 2012.

- obliging the government to present an annual Medium-term Fiscal Strategy to the Parliament for debate in the spring and to seek its endorsement of the key economic, fiscal, budgetary, and policy parameters for ministries, municipalities, and public corporations to use in preparing their budgets for the coming year; and
- strengthening arrangements for independent evaluation of the government's ex ante fiscal forecasts and its ex post fiscal performance, drawing on existing institutional arrangements.

The OBL also provide for significant improvements in reporting practices to hold the government accountable for its fiscal performance through comprehensive and timely set of financial reports by:

- accelerating the timetable to produce audited consolidated accounts so that they were available in time to inform the Medium-term Fiscal Strategy in April;
- improving the consistency of budget forecasts and end-of-year accounts by requiring both to be prepared on the same accounting basis;
- expanding the coverage of public institutions in fiscal statistics and financial statements to provide better information on the consolidated finances of the public sector;
- broadening the coverage of fiscal flows and assets and liabilities, so that, for example, the central government recognizes physical assets on its balance sheet, including those related to long-term leases and public-private partnerships; and
- adopting the GFS methodology and classifications in presentation to facilitate fiscal policymaking and the IPSAS underlying accounting principles.

The SFP

The SFP is the government policy statement on the scope, fiscal balances, and development of assets, liabilities and long-term obligations of the public sector and of the general government for a period of at least five years. It presents how government policy might affect the other sectors of the economy (i.e., the corporate sector and the household sector). Its main purpose is to promote stability in the long run and create conditions for efficient use of manpower, capital and resources.

The OBL states that when a government is formed, an SFP should be submitted to the parliament for approval. It should be in accordance with the following main principles: sustainability, prudence, stability, predictability and transparency, and the conditions (i.e., fiscal rules) outlined in OBL.³ Also,

³ *Article 7: Conditions for the Statement of Fiscal Policy and Fiscal Strategy Plan:* The targets of the fiscal policy and fiscal strategy regarding the fiscal balance and balance sheet position of the general government, i.e. the central government and local governments, shall be in accordance with the following conditions: 1) The *net lending/borrowing balance* over a five-year period shall always be positive and the annual deficit always below 2.5 percent of gross domestic product; 2) *Total liabilities*, excluding pension liabilities and accounts payable, minus the currency and bank deposits assets, shall be lower than 30 percent of gross domestic product; 3) If the debt ratio under point 2 exceeds 30 percent, the part in excess thereof shall be reduced on average in every three-year period by at least 5 percent ($1/20$) per year.

the OBL requires that the definition regarding fiscal performance and fiscal balances in the SFP should be in line with the GFS methodology and that the SFP's objectives should be presented as a ratio of GDP (Table 1).

Table 1. The Fiscal Policy Objectives in the Statement of Fiscal Policy

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|---------------------------------------|------------------|------|------|------|------|
| | (Percent of GDP) | | | | |
| The General Government sector: | | | | | |
| Net lending/borrowing balance | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| o/w central government | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| o/w local governments | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total debt* | 34 | 30 | 29 | 28 | 26 |
| o/w central government | 28 | 24 | 23 | 22 | 21 |
| o/w local governments | 6.3 | 5.9 | 5.7 | 5.6 | 5.4 |
| The Public sector: | | | | | |
| Net lending/borrowing balance | 0.0 | 0.1 | 0.7 | 1.1 | 1.3 |
| o/w general government | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| o/w nonfinancial corporations | -1.0 | -0.9 | -0.3 | 0.1 | 0.3 |
| Total debt* | 59 | 55 | 53 | 52 | 49 |
| o/w general government | 34 | 30 | 29 | 28 | 26 |
| o/w nonfinancial corporations | 25 | 25 | 24 | 24 | 23 |

*) Total liabilities, excluding pension liabilities and accounts payable, minus the currency and bank deposits assets.

Source: Icelandic authorities.

The FSP

Each year in the spring, the minister for finance submits to the parliament a proposal for a parliamentary resolution on a fiscal strategy plan (FSP) for a period of at least five years. The FSP consists of two main parts: the first part presenting the economic development and outlook of the economy and public finances; the second part elaborating on objectives and forecasts of the public finances by levels of governments. The FSP presents flow targets (including revenue, expenditure and financing) as well as balance sheet targets. The FSP main tables and figures are presented in accordance with the GFS methodology and classifications. The FSP parliamentary resolution forms the base for the budget bill and for the local government budgets for the upcoming year.

The revenue policy of the general government for the next five years is reflected in the figures, which means that any intended changes in the tax policy will be reflected there as well as in the text of the FSP. Similarly, on the expenditure side, any changes in the policies of government consumption, subsidies to the corporate sector or social benefits to the households will be reflected in a similar way. The investment policy is as well reflected in the table in figures for the coming years and the

policy on financing. In other words, the classification of revenues, expenditures and financing by economic types and the description of their intended policy impact will be well presented in the FSP. In addition, the net lending/borrowing balances for the next five years are shown and how they relate with SFP objectives (Table 2). The statement of operation is presented for the central and local governments as well.

Table 2. General Government Statement of Operations

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|------------------------------|----------------|----------------|----------------|----------------|
| | (Billions of Iceland kronur) | | | | |
| 1 Total revenue | 1,049.6 | 1,112.0 | 1,172.0 | 1,228.9 | 1,287.5 |
| 11 Tax revenue | 829.4 | 880.7 | 932.1 | 979.7 | 1,027.1 |
| 111 Taxes on income and profits | 453.7 | 481.8 | 511.6 | 538.6 | 566.3 |
| 112 Taxes on payrolls and workforce | 8.1 | 8.7 | 9.3 | 9.8 | 10.4 |
| 113 Taxes on property | 49.7 | 52.3 | 55.5 | 58.6 | 62.0 |
| 114 Taxes on goods and services | 298.1 | 316.9 | 333.6 | 351.6 | 367.8 |
| 115 Taxes on international trade | 2.8 | 3.0 | 3.1 | 3.3 | 3.5 |
| 116 Other taxes | 17.1 | 18.1 | 19.1 | 18.2 | 17.0 |
| 12 Social contributions | 88.0 | 95.2 | 101.5 | 107.7 | 114.3 |
| 13 Grants | 4.9 | 5.0 | 5.1 | 5.2 | 5.4 |
| 14 Other revenue | 127.3 | 131.1 | 133.3 | 136.3 | 140.8 |
| 141 Property income | 48.7 | 53.7 | 52.4 | 49.8 | 50.3 |
| 142 Sale of goods and services | 63.1 | 66.0 | 68.9 | 72.0 | 75.2 |
| 14x Other revenues | 15.6 | 11.4 | 12.1 | 14.6 | 15.3 |
| 2+31 Total expenditure | 1,025.0 | 1,075.5 | 1,130.3 | 1,185.6 | 1,239.9 |
| 2 Total expenses | 1,013.8 | 1,063.7 | 1,112.3 | 1,165.7 | 1,217.6 |
| 21 Compensation of employees | 378.5 | 400.3 | 425.1 | 450.7 | 477.9 |
| 22 Use of goods and services | 252.5 | 263.7 | 273.5 | 285.6 | 297.6 |
| 23 Consumption of fixed capital | 43.1 | 44.6 | 46.0 | 47.4 | 48.8 |
| 24 Interest | 79.2 | 76.9 | 71.2 | 70.6 | 67.1 |
| 25 Subsidies | 37.0 | 38.5 | 39.8 | 41.2 | 42.4 |
| 26 Grants | 3.9 | 4.8 | 6.2 | 7.2 | 8.6 |
| 27 Social benefits | 167.9 | 176.8 | 186.9 | 194.7 | 201.2 |
| 28 Other expense | 51.6 | 58.1 | 63.4 | 68.4 | 74.0 |
| 31 Net acquisition of nonfinancial assets | 11.2 | 11.8 | 18.0 | 19.9 | 22.3 |
| 311 Net financial assets, acquisition | 54.3 | 56.4 | 64.0 | 67.3 | 71.1 |
| 22 Consumption of fixed capital | -43.1 | -44.6 | -46.0 | -47.4 | -48.8 |
| Net lending/borrowing balance (1-2-31) | 24.6 | 36.5 | 41.7 | 43.3 | 47.6 |
| 32 Financial assets, transactions | 41.5 | 60.2 | 41.3 | 51.2 | 63.3 |
| 3212 Currency and deposits | 138.4 | 57.5 | 25.5 | 36.1 | 40.3 |
| 3214 Loans | 0.4 | 4.9 | -7.8 | 1.9 | 6.8 |
| 3215 Shares and other equities | -0.2 | 1.0 | 1.3 | 1.6 | 1.6 |
| 3218 Other accounts receivable | -97.1 | -3.2 | 22.3 | 11.7 | 14.6 |
| 33 Liabilities, transactions | 16.4 | 23.2 | -0.9 | 7.5 | 15.3 |
| 3313 Debt securities | 53.1 | 20.4 | -60.4 | -44.0 | -49.1 |
| 3316 Insurance technical reserves | 20.0 | 10.4 | 17.8 | 9.3 | 8.8 |
| 3318 Other accounts payable | -56.7 | -7.6 | 41.8 | 42.3 | 55.6 |

Source: Icelandic authorities.

Consistency between budgeting, accounting, and statistics

One of the main advantages of implementing the GFS methodology in budgeting is the consistency that is achieved between the budgeting, accounting and statistics. The same terminology will be used by all users in ministries, accounting and statistical offices, ensuring a common understanding by all stakeholders. The comparability of figures, tables and accounts will be significantly enhanced, resulting in an increase efficiency and an improvement in the timeliness of data availability (Figure 1).

Figure 1. Consistency Between Budgeting, Accounting, and Statistics

| Budgeting | | Accounting | | Statistics | |
|----------------------------------|---------------|----------------------------------|---------------|----------------------------------|---------------|
| <i>In billions ISK</i> | Proj. 2017 | <i>In billions ISK</i> | Proj. 2017 | <i>In billions ISK</i> | Proj. 2017 |
| 1. Total revenue | 920.7 | 1. Total revenue | 920.7 | 1. Total revenue | 920.7 |
| 11 Taxes | 718.0 | 11 Taxes | 718.0 | 11 Taxes | 718.0 |
| 12 Social contributions | 79.6 | 12 Social contributions | 79.6 | 12 Social contributions | 79.6 |
| 13 Grants | 1.4 | 13 Grants | 1.4 | 13 Grants | 1.4 |
| 14 Other revenue | 121.7 | 14 Other revenue | 121.7 | 14 Other revenue | 121.7 |
| Total expenditures (2+31) | 922.6 | Total expenditures (2+31) | 922.6 | Total expenditures (2+31) | 922.6 |
| 2 Expense | 913.3 | 2 Expense | 913.3 | 2 Expense | 913.3 |
| 31 Nonfinancial assets | 9.3 | 31 Nonfinancial assets | 9.3 | 31 Nonfinancial assets | 9.3 |
| Net lending/borrowing | -1.9 | Net lending/borrowing | -1.9 | Net lending/borrowing | -1.9 |
| 32 Financial assets, trans. | -5.0 | 32 Financial assets, trans. | -5.0 | 32 Financial assets, trans. | -5.0 |
| 33 Liabilities, transactions | -3.1 | 33 Liabilities, transactions | -3.1 | 33 Liabilities, transactions | -3.1 |
| Net operating balance | 7.4 | Net operating balance | 7.4 | Net operating balance | 7.4 |

Source: Icelandic authorities.

B. Mexico

Until 2014, the fiscal policy target was set on fiscal indicators following national methodologies (e.g., *Traditional Balance* and the *Adjusted Fiscal Balance*) which had several limitations for fiscal policy analysis. The breakdown of revenues and expenditures in the traditional balance was misleading, with sizeable aggregated adjustments necessary to get to the adjusted fiscal balance. Adjustments, mostly underreported expenditures and minimal revenues, were developed gradually as a way to get a better estimation of the actual financial performance of the public sector (most of them were developed as part of the IMF surveillance exercise). Yet, over time these adjustments grew in magnitude masking the key drivers of imbalances and making it difficult to assess the fiscal stance over the cycle. For example, in 2012 adjustments to the traditional deficit accounted for 1.1 percent of GDP, increasing the traditional balance from -2.6 to -3.7 percent of GDP.

| National presentation | New presentation |
|-----------------------------------|---|
| + Revenues | + Revenues (GFSM breakdown) |
| - Expenditures | - Expenditures |
| = Traditional balance | * Expense (GFSM breakdown) |
| | * Net acquisition of NFA |
| - Adjustments to traditional bal. | |
| = Adjusted fiscal balance | = Borrowing requirements (GFSM net/lending borrowing) |

In 2012, the authorities in collaboration with FAD began the process of redefining fiscal policy targets. In 2013, the Fund team adopted a GFSM presentation in the fiscal tables for policy analysis. In 2014, the Mexican authorities introduced in their budget law a new target indicator for fiscal policy in line with the GFS methodology (i.e., *Public Sector Borrowing Requirements*, PSBR).⁴ Although the traditional deficit was not abandoned as a policy target, the PSBR was added as a new policy target broadly in line with GFS framework. At the same time, the authorities published the methodology for calculating the PSBR, and disseminated monthly historical data by level of governments from 2008 onwards.

C. Rwanda

To comply with the requirements of regional fiscal harmonization under the East African Monetary Union Protocol, Rwanda has adopted, since FY2015/16, a presentation of the national budget which is broadly aligned with the *GFSM 2014*.⁵ The change in the presentation followed the authorities' review of the Chart of Accounts (CoA), incorporating the *GFSM 2014* economic and functional classifications. The national budget presented to the parliament each year covers revenue, expenditure (including grant expenses to extra budgetary and local government units), and net financing of all the budgetary central government units. The budget presentation reflects country-specific requirements to: (i) equate all resources to all outlays, (ii) distinguish domestic and external resources, and (iii) distinguish recurrent and development outlays. As shown in an extract from the Rwanda's FY2016/17 budget statement (Table 3), borrowing (incurrence of liabilities) is included in the total budget resources; repayment is included in the total expenditure; domestic resources (including tax revenues, other revenues, and domestic borrowing) and external resources (including grants and foreign borrowing) are shown separately; and current expenditure (including acquisition

⁴ See Ministry of Finance website for fiscal data and methodologies: http://finanzaspublicas.hacienda.gob.mx/es/Finanzas_Publicas/Estadisticas_Oportunas_de_Finanzas_Publicas.

⁵ Rwanda is a member of the East African Community, a regional organization also including Burundi, Kenya, Uganda, and Tanzania. All 5 member countries signed a protocol in 2013, setting out the process for the establishment of a monetary union. Among the requirement for convergence towards accession to the monetary union by 2024 are harmonization and coordination of fiscal policies, and the adoption common methods, concepts, definition, and classifications for compiling, analyzing, and disseminating statistics (EAC Monetary Union Protocol, 2013).

of fixed assets) and development budget are shown separately. This budget presentation can easily be converted to a presentation using the GFS framework because all the line items in the budget are coded according to the GFS classifications.

In-year fiscal reports (quarterly and half year budget execution reports)—which are used for data provision to the Fund for surveillance and program purposes—are currently compiled using the GFS 1986 presentation and cover only the budgetary central government. Similar presentation is used for staff reports. The Rwandan authorities and the IMF country team are currently working toward adopting the GFS methodology and classifications to the fiscal data provided to the Fund for surveillance and program purposes. To that end, a structural benchmark to establish a timeline for the transition of fiscal reporting into the *GFSM 2014* was set under the Standby Credit Facility Arrangement and the Policy Support Instrument for Rwanda, and the conditionality was met by end-September 2016.⁶ Once the migration of fiscal reporting to the *GFSM 2014* presentation is completed, as was also the case for the national budget, data provision will be done in the new framework, allowing for fiscal analysis to be conducted and program targets to be set using the GFS framework.

Year-end reports (consolidated financial statements) are prepared at the end of each fiscal year and presented to the parliament, forming the basis of annual financial audit. The year-end report covers general government operations unlike in-year reports. Although the coverage is different from the state budget and the presentation is modified to satisfy the country's reporting requirements, these statements are compiled using the same chart of accounts which is *GFSM 2014* compliant.

As for GFS data reported for the Fund's statistical publication (Government Finance Statistics Yearbook), the source data are compiled according to the methodology of the *GFSM 2014*. The sector and institutional classifications are consistent with the international standards. The compilation is facilitated because the GFSM-compliant chart of accounts is used throughout the budgetary process and statistical compilation.

While the progress in Rwanda toward adopting the *GFSM 2014* framework has been driven by the authorities' commitment to complying with the regional harmonization requirement, it is also achieved through sustained technical assistance in GFS. A total of 14 GFS technical assistance missions have been carried out in Rwanda between FY2011 and FY2017, including the missions with the financial support provided by the UK Department for International Development and AFRITAC East. GFS technical assistance in Rwanda, as in the other EAC countries, has emphasized development of the capacity of staff in agencies across government (Ministry of Finance, Central Bank, and Statistics Office) and leveraged political commitment at the highest level of government to use the newly acquired skills in GFS compilation to overhaul the budget presentation, and improving fiscal reporting. The case of Rwanda illustrates the importance of high-level political commitment and technical assistance tailored to regional and country-specific circumstances.

⁶ ["Rwanda : First Review of the Standby Credit Facility Arrangement and Sixth Review Under the Policy Support Instrument, Request for Waiver and Modification of Performance and Assessment Criteria-Press Release; and Staff Report," IMF Country Report, No. 17/8.](#)

Table 3. Rwanda: State Budget, FY 2016/17
(Billions of Rwanda francs)

| | 2016/17 |
|---|----------------|
| Table A. | |
| I. Domestic resources | 1,216.4 |
| a. Tax revenues | 1,071.6 |
| Tax on income, profits, and capital gains | 445.6 |
| Tax on property income | 4.4 |
| Indirect tax on goods and services | 542.0 |
| Tax on external trade | 79.6 |
| b. Other revenues | 110.8 |
| Property income | 10.7 |
| Sales of goods and services | 85.2 |
| Fines, penalties, and forfeit | 13.8 |
| Miscellaneous domestic revenues | 1.2 |
| c. Domestic borrowing | 34.0 |
| Domestic borrowing | 34.0 |
| II. External resources | 733.0 |
| a. Grants | 365.3 |
| Current grants | 219.3 |
| Project grants | 146.0 |
| b. Proceeds from borrowing | 367.7 |
| Foreign borrowing | 367.7 |
| Total budget resources (I+II) | 1,949.4 |
| Table B. | |
| I. Current expenditure | 1,163.7 |
| Wages and salaries | 370.8 |
| Expenditure on use of goods and services | 308.4 |
| Acquisition of fixed assets | 146.5 |
| Interest payments | 65.1 |
| Subsidies | 81.6 |
| Current grants to public institutions | 25.4 |
| Social protection | 39.3 |
| Other expenditures | 70.2 |
| Reimbursement of public debt | 56.3 |
| II. Development budget | 785.7 |
| On national resources | 444.3 |
| On project loans | 115.0 |
| On project grants | 226.5 |
| Total expenditure (I+II) | 1,949.4 |

Source: Rwandan authorities.

D. Senegal

Senegal has successfully migrated to the GFS framework and adopted it for the fiscal targets under the Policy Support Instrument.⁷ This was enabled by a strong collaboration among the authorities, AFR country team, and functional departments. Over several years, Senegal had built capacity to incorporate the GFS methodology and classifications in the government budget and accounting systems with the help of technical assistance and training by STA and West AFRITAC. The AFR country team first identified the window of opportunity in 2015 in between two programs under the Policy-Support Instruments. The authorities also saw the advantages in migrating to comply with the West African Economic and Monetary Union directive adopted in 2012 which stipulated the member countries to report fiscal data using the *GFSM 2001* methodology and classification. With intensive collaboration (including a dedicated staff visit and two visits to the Fund headquarters by the authorities for training), Senegal has completed a migration of fiscal data reporting for Fund's program and surveillance to the GFS framework.

⁷ The GFS methodology and classification is being used in the fiscal table in the staff report for the request and review of the Policy Support Instrument. The quantitative assessment criterion on fiscal balance is defined by a "floor on net lending/borrowing" according to the *GFSM 2001* definition.