# IV Summary and Conclusions

Fiscal transparency—defined as public openness in government institutions, fiscal policy intentions, public sector accounts, indicators, and forecasts—is fundamental to sound economic policy. Transparency allows the market to evaluate, and impose discipline on, government policy and increases the political risk of unsustainable policies. The potential role of transparency in promoting good governance has been widely recognized.

Despite the inherent difficulty of fully corroborating the link between transparency, on the one hand, and fiscal discipline and economic performance, on the other, it can be shown that the better-performing countries in the various major regions of IMF membership generally follow more transparent fiscal practices. There are good reasons to believe that fiscal transparency contributes to macroeconomic stability, allocative efficiency, and fairness. Furthermore, fiscal transparency leads to increased credibility, which, in turn, helps reduce risk premiums in financial markets and strengthens support by the electorate. Notwithstanding this general presumption, a temporary departure from transparency may sometimes be justified—notably, when the premature announcement of sensitive statistical data or policy measures would weaken their effectiveness and confer unintended windfall gains on some groups.

A review of issues in fiscal transparency points to the importance of adopting practices and providing information that ensure a clear demarcation between the public and private sectors. This includes documentation and quantification of the extent of government intervention in such areas as bank rescue and enterprise restructuring operations and privatization. Also, information should be made available on the cost of any quasi-fiscal activities of state-owned or private nonfinancial enterprises and financial institutions. Unless there is a clear economic rationale for placing certain activities off-budget, governments should refrain from doing so. In any event, sufficient information on such activities should be provided to ensure that they are subject to the same public and legislative scrutiny as on-budget operations. The budget process should involve, above all, public disclosure of budget documents—including clear enunciation of fiscal targets and strategies—and open legislative debate. Transparency in budget execution and control includes open procurement, contracting, and hiring practices. Financial and performance audits of budget operations should be subject to public scrutiny. In the tax area, transparency entails clearly defined statutes, with no recourse to discretionary tax concessions or negotiated tax liabilities. Published tax expenditure estimates should underpin debates on the draft budget or on tax reform. Information should be made available on the terms and sources of government deficit financing. Similarly, the criteria and terms of government lending should be clearly disclosed. Recent gains from deregulation should be consolidated with the implementation of a simple regulatory framework that can be costed transparently.

Sound fiscal policymaking requires clarity in the measurement of government transactions, ownership, and obligations. To this end, coverage of fiscal accounts should extend to the entire general government, supplemented with information on quasi-fiscal activities, preferably applying accrual-based recording. In practice, cash-based recording—useful for short-run fiscal analysis—can be enhanced with data on payment arrears, transactions in kind, and discount securities to approximate an accrual-based presentation, which is necessary to determine the medium-term implications of budget policy. Other issues that have a bearing on the transparency of government accounts are the appropriate valuation of assets and liabilities—including recognition of commitments and contingent liabilities—and a meaningful classification of revenue, expenditure, and debt.

Transparency is also necessary for indicators of fiscal stance and sustainability. Various measures of government balance and public indebtedness must be disclosed. Also, calculation of the actuarial value of net unfunded entitlement liabilities and estimates of generational accounts are useful. Publication of fiscal projections should be documented with sufficient information on the underlying methodology and key macroeconomic assumptions. Explicit medium-term fiscal projections need to be incorporated in annual budget documents. In countries with

rapidly aging populations, long-term scenarios for public pension and health care programs should be published regularly. Moreover, the government should make public a retrospective evaluation of the actual outcome against projections.

Although, in recent years, many IMF member countries have made substantial progress toward transparency in virtually all these areas, there is considerable scope for improvement. Advanced economies should concentrate on developing more transparent measures of fiscal sustainability, along with an open debate of reform options in the face of aging populations. In developing economies, emphasis should be on promoting transparency in government institutions and on disseminating essential fiscal data and projections. In the economies in transition, adoption of new attitudes is essential to support the institution-building process.

The case for eliminating the remaining nontransparent practices is underscored by the vulnerability of the world economy to the increasing integration of financial markets across country boundaries. Transparency in public finances can contribute to policy credibility and thus help prevent a potential crisis from materializing and spreading across countries. At the same time, it is important to recognize that greater transparency may involve costs, particularly where information systems and reporting practices have to be developed or improved; and that efforts to promote fiscal openness must enjoy strong support in member countries if they are to succeed.

The IMF has contributed to the improvement in fiscal transparency in most areas through surveillance, program design and implementation, technical assistance, development and application of statistical standards, and publication of research activities. However, at least until recently, these efforts did not always translate into enhanced fiscal transparency by member governments toward their own electorate and financial markets. The recent establishment of the Special Data Dissemination Standard—to promote transparency mainly in macroeconomic databases—is a potentially important initiative in this regard. In addition, further steps are being considered to strengthen the role of the IMF in promoting fiscal transparency.