

# New IMF Code of Fiscal Transparency: Citizens should be involved in fiscal decision-making

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# PRESS RELEASES

## New IMF Code of Fiscal Transparency: Citizens should be involved in fiscal decision-making

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**Following extensive and protracted public consultations, the International Monetary Fund in August presented its new Fiscal Transparency Code – a standard which, once approved by the Executive Board, should be adhered to by all the member countries. One of the main novelties of the Code is the formal involvement of citizens in budget decision-making.**

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The new **Code** differs significantly from earlier versions<sup>1</sup> and it covers four key pillars of fiscal transparency: (1) Fiscal Reporting; (2) Fiscal Forecasting and Budgeting; (3) Fiscal Risk Analysis and Management; and (4) Resource Revenue Management.<sup>2</sup> Moreover, *Fiscal Reports on the Observance of Standards and Codes – ROSCs*<sup>3</sup> have been superseded by a new *Fiscal Transparency Evaluation – FTE* as a tool to examine to what extent the countries' fiscal transparency practices comply with the standards set in the new Code.<sup>4</sup>

The aim is to ensure that governments, legislators, citizens and markets have a complete picture of the state of public finances, covering the entire public sector and including accurate and comprehensive fiscal forecasts and recognizing key fiscal risks. The new approach to fiscal transparency will focus on outputs rather than processes, with the emphasis put on the quality of published data, taking account of different levels of country capacity (it differentiates between basic, good and advanced practices for each of its principles), placing emphasis on fiscal risks (disclosure, analysis and management of risks) and reflecting the most recent advances in fiscal management and international standards.

It is very significant that the IMF, which has so often been accused of insensitivity to the public, has first held a really widespread public debate, that it took into account other international standards, including the **Open Budget Survey**, conducted by the International Budget Partnership (IBP), Washington, in collaboration with civil society organisations in about a hundred countries, and introduced a public participation principle. The term 'citizens' is mentioned in the Code for the first time. The principle 2.3.3 thus states that „The Government provides citizens with an accessible summary of the implications of budget policies and an opportunity to participate in budget deliberations“. As in the case of all the other principles, there are three possible levels of practices in public participation:

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<sup>1</sup> The Institute of Public Finance has published the Croatian translations of the 2001 and 2007 releases in *Newsletter*, No. 8 and *Newsletter*, No. 53.

<sup>2</sup> The first three pillars have been finalized, while Pillar IV will be completed by the end of the year, by adapting the first three pillars to the particular circumstances of the resource-rich countries.

<sup>3</sup> As the ROSC for Croatia dates back to 2004, one should hope that the country will soon have its turn to introduce the FTE.

<sup>4</sup> Eight countries have been evaluated by now, and the evaluation results for four of them (*Costa Rica, Ireland, Russia and Bolivia*) have already been published.

- *Basic practices* – Government publishes an accessible description of recent economic and fiscal performance and prospects, as well as a summary of the implications of the budget for a typical citizen.
- *Good practices* – Government publishes an accessible description of recent economic and fiscal performance and prospects and a detailed account of the implications of the budget for a typical citizen, and provides citizens with a formal voice in budget deliberations.
- *Advanced practices* – Government publishes an accessible description of recent economic and fiscal performance and prospects and a detailed account of the implications of the budget for different demographic groups, and provides citizens with a formal voice in budget deliberations.

The same concept is used for all 32 principles, and for each of them basic, good and advanced practices are offered. The section dealing with fiscal reporting, for example, provides: 1.1 Coverage, 1.1.1 Coverage of Institutions, 1.1.2 Coverage of Stocks, 1.1.3 Coverage of Flows and 1.1.4 Coverage of Tax Expenditures. Similarly, the section on fiscal risk analysis and management includes, for example 3.3 Fiscal Coordination, 3.3.1 Sub-National Governments and 3.3.2 Public Corporations. This enables each country to assess its own fiscal transparency, or otherwise, the IMF will sooner or later make the assessment, as it has already done for the above mentioned countries.

Regretfully, Croatia does not presently meet even the basic practices criterion as concerns public participation (2.3.3). However, with a little effort, it could even achieve advanced practices on some of the principles (e.g. 1.2.1 Frequency of In-Year Reporting). Specifically, although Croatia formally publishes monthly reports, they are not released within a month, but with a considerable delay. And it is exactly „the publishing of in-year fiscal reports on a monthly basis, within a month“ that constitutes “advanced practices“.

For now, some of the principles still seem like science fiction to us. For example, with respect to 1.1.4 (Coverage of Tax Expenditures), the basic practices require that „the estimated revenue loss from tax expenditures be published at least annually“. In Croatia, however, it is not published at all. Similarly, regarding the principle dimension 3.1.3 (Long-Term Fiscal Sustainability Analysis), the basic practices imply that „the government regularly publishes projections of the sustainability of the main fiscal aggregates and any health and social security funds over at least the next 10 years“- something we can only dream about in Croatia.

This Code provides the Croatian Government, just like those of all other IMF member countries, with a fiscal transparency standard which clearly shows the course they should take. In contrast to the previous belief that the publishing of information is enough by itself (in Croatia, published information is still inadequate), the new Code goes a step further, requiring that citizens be formally involved in budget deliberations.

While the Government is currently not doing enough, some sub-national governments in the country deserve to be commended for taking some steps in the right direction even without the new Code. As shown by the analysis of **Budget Transparency of Croatian Counties, Cities and Municipalities**, in Labin, citizens are directly involved in the budgeting process; in Koprivnica, polls on the budget are conducted and in Duga Resa, Koprivnica and Pula, public meetings are organised, inviting citizens to participate in budget debates. For now, these are only isolated breakthroughs, but it should be hoped that their number will increase at both the local and central government levels. For, as pointed out by IBP director **Warren Krafchik**, the Code represents „a crucial step that can encourage governments to create more responsive and accountable budget systems in which citizens can voice their expectations and concerns about budget plans and implementation.“