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**Summing Up by the Acting Chairman
Transparency in Government Operations and Fiscal Policy Rules
Executive Board Meeting 97/102—October 15, 1997**

Directors welcomed the opportunity to discuss transparency in government operations and fiscal policy rules, given that fiscal policy was an integral part of Fund-supported adjustment programs, and a key focus of Fund surveillance.

Transparency in government operations

Directors agreed that transparency in government operations was conducive to fiscal discipline, sound public sector management, good governance, and improved macroeconomic performance. Moreover, in a globalized economy, where the costs of loss of market confidence have become increasingly clear, fiscal transparency should help to instill confidence in a government's economic policies. Fiscal transparency entailed setting out clear fiscal objectives, building clear institutional arrangements (including a proper budgetary process), using transparent and widely accepted accounting methods, and providing timely and reliable information.

Directors agreed that the Fund should continue to help its members achieve greater fiscal transparency through surveillance, technical assistance, and program design. They observed that improving fiscal transparency was a multiyear endeavor, and that the priorities for improving transparency might differ among countries. Therefore, due regard should be paid to the specific circumstances of individual countries. Some Directors stressed that the Fund's involvement in fiscal transparency should be focused on issues of macroeconomic significance, and the need for an evenhanded approach was noted.

Directors supported increased emphasis on promoting transparency in government operations. Many Directors supported a proposal for the staff to prepare a brief manual of good practices for fiscal transparency. Some Directors expressed reservations about establishing "best practices." Some other Directors noted that the present paper already provided a reasonable starting point, and the staff could gradually accumulate an inventory of transparent practices in the context of Article IV consultations. Directors also saw a need for close cooperation with other institutions in their area of competence. Many Directors observed that the resource implications of any such initiative should be taken into account. There was support for provision of technical assistance that would be oriented toward the improvement of fiscal transparency.

Directors noted the importance of timely and comprehensive reporting of public sector accounts. To that end, the coverage of fiscal accounts should be extended to the general government, and should include information on off-budget operations and the cost of quasi-fiscal activities. Also, cash-based recording could be supplemented with accrual-based recording of transactions. It would also be desirable, where possible, to publish information on guarantees and unfunded public sector liabilities. Some Directors noted experience with the use of independently audited accounts and legislative public accounts committees, and suggested that those and similar practices could help in a government's efforts to achieve fiscal transparency. Directors also stressed the need for transparent and stable tax systems, and the need to include estimates of tax expenditures as part of the budget process. They noted that discretionary tax relief, tax exemptions, and arbitrary tax administration were among the most important problems affecting fiscal performance in many countries.

Some Directors suggested that the development and publication, in periodic budget documents, of indicators of the fiscal stance and sustainability, as well as of consistent budgetary forecasts and policy intentions, would be useful.

Fiscal policy rules

Many Directors recognized the potential usefulness of fiscal policy rules in strengthening or restoring policy credibility in specific circumstances. Some Directors also noted the usefulness of fiscal rules and limits in the context of common currency areas. In that respect, they pointed to the benefits for fiscal convergence in the European Union that had accrued from the fiscal reference values under the Maastricht treaty.

At the same time, Directors cautioned that fiscal rules were not a panacea. It was observed that good economic performance depended on the political will to implement sound policies, and that simply promulgating rules without building the political consensus to put in place the implied sound policies was unlikely to yield the desired results. The view was also expressed that it might be difficult in practice for fiscal policy rules to embody all the properties of a model rule as described in the staff paper. Moreover, attempts at complying with a fiscal rule through excessive reliance on tax rate increases and unsustainable or cosmetic expenditure cuts, or one-off measures, might tend to be counterproductive.

Directors emphasized that successful adoption and maintenance of fiscal rules required that they be underpinned by a comprehensive structural reform strategy. Directors generally agreed that for a fiscal policy rule to be credible, it must be sufficiently flexible to accommodate exogenous shocks and cyclical fluctuations in activity. Most important, the nature and application of the rule would have to be transparent.

Commenting on alternative fiscal rules, several Directors noted that balanced-budget rules could have merit because of their simplicity, but only if they met key criteria of transparency and flexibility, for instance, they need not be required to hold exactly year-by-year. Limits on public debt as a ratio to GDP could also be useful. A few Directors suggested

a “golden rule” which would require current account balance only, which would have the merit of promoting intergenerational equity. However, the difficulty of distinguishing between current and capital spending was noted.

Directors indicated that there were circumstances in which fiscal rules could prove useful for countries to institutionalize better macroeconomic policies. Where members were interested in formulating such rules, or incorporating them in the design of adjustment programs, the Fund should be prepared to provide policy advice and technical assistance.

Directors felt that the papers on transparency in government operations and fiscal rules should be widely disseminated and, therefore, supported their publication after revision to take account of Directors’ comments.

