Emerging Fiscal Trends: Implications for Public Financial Management

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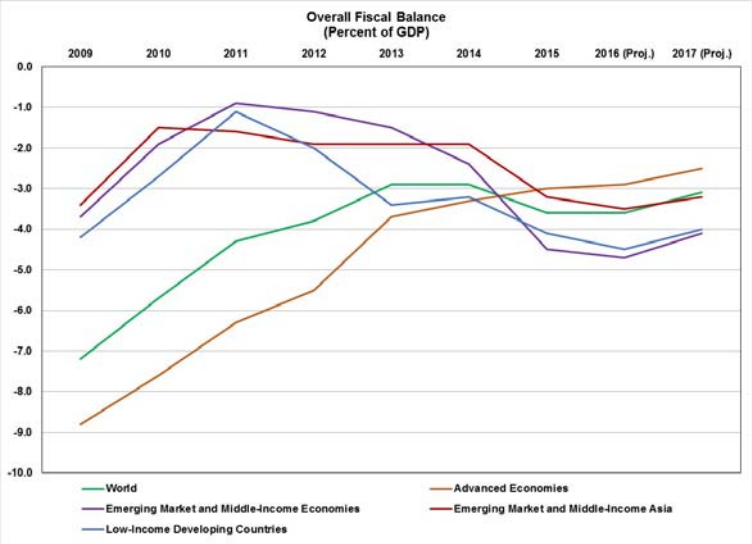
The Context

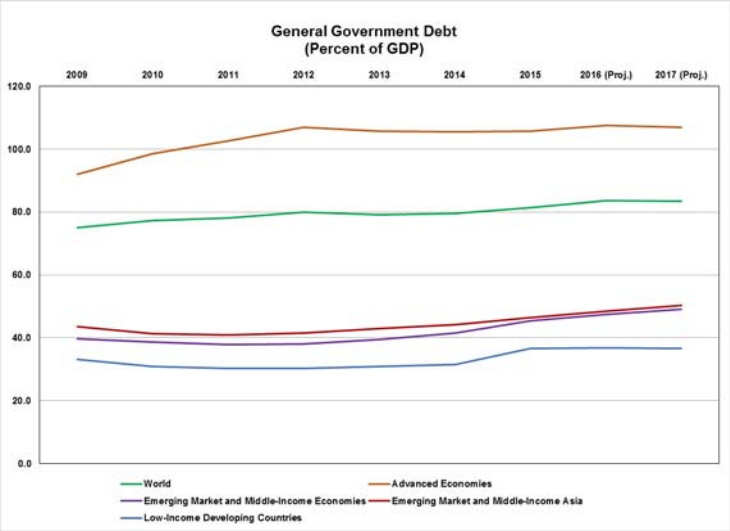
Global economic growth is modest, broadly in line with last year, but lower than expected.

	Real GDP (Annual percent change)								
	2009	2010	2011	2012	2013	2014	2015	2016 (Proj.)	2017 (Proj.)
World	-0.1	5.4	4.2	3.5	3.3	3.4	3.1	3.2	3.5
Advanced Economies	-3.4	3.1	1.7	1.2	1.2	1.8	1.9	1.9	2.0
Emerging Market and Developing Economies	3.0	7.4	6.3	5.3	4.9	4.6	4.0	4.1	4.6
Emerging and Developing Asia	7.5	9.6	7.8	6.9	6.9	6.8	6.6	6.4	6.3
Low-Income Developing Countries	5.9	7.1	5.3	5.2	6.1	6.1	4.5	4.7	5.5

Fiscal balance, globally as well as in emerging and middle-income Asia, has deteriorated since 2014.



Public debt levels have generally gone up.



Source: World Economic Outlook, April 2016 and Fiscal Monitor, April 2016, International Monetary Fund

An Intuitive PFM Response

- Strengthen institutions that help promote fiscal discipline
  - Greater fiscal transparency
  - Clearer fiscal rules; fiscal councils
  - Improved fiscal risk management
- Seek better value for money
  - Develop capacity to allocate resources to priorities
    - Strategic allocation; performance-orientation
  - Strive for greater operational efficiency
    - Enhanced predictability of funds
    - Smooth budget execution

Credible Fiscal Management - An Analytical Framework

3-Stage Fiscal Policy-making Process

a. Understanding the Fiscal Outlook and Challenges

b. Formulating a Credible Fiscal Strategy

c. Implementing the Strategy through the Budget Process

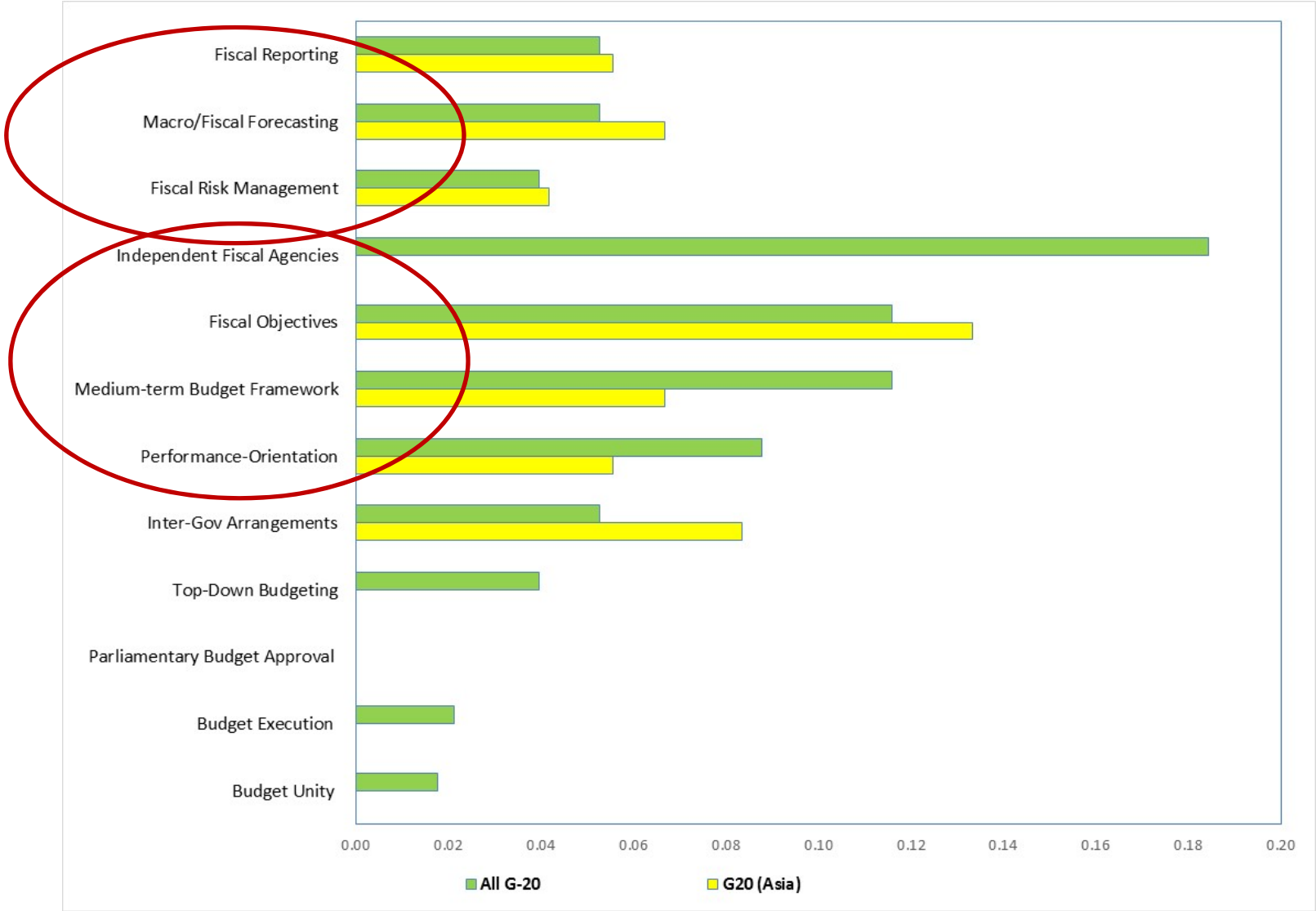
12 Key Budget Institutions

1. Fiscal Reporting
2. Macro-Fiscal Forecasting
3. Fiscal Risk Management
4. Independent Fiscal Agency

5. Fiscal Objectives and Rules
6. Medium-term Budget Framework
7. Performance Orientation
8. Inter-govt. Fiscal Arrangements

9. Budget Unity
10. Top-Down Budgeting
11. Parliamentary Approval
12. Budget Execution

Institutional Reforms in G20: 2010-2013

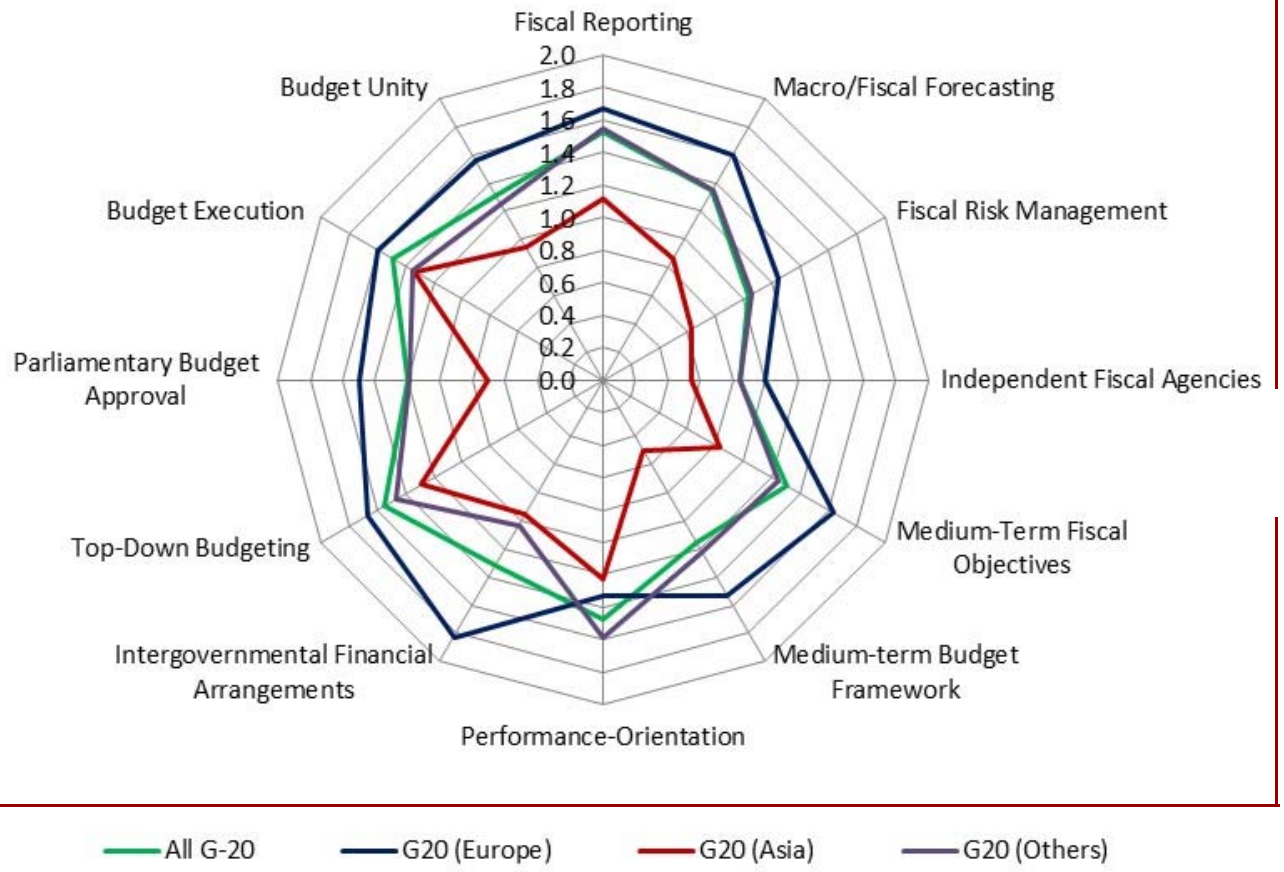


G 20 (Asia): China, India, Indonesia, Japan, Korea

Strength of PFM Institutions in G20: By Region

Understanding Fiscal Challenges

Implementation through the Budget Process

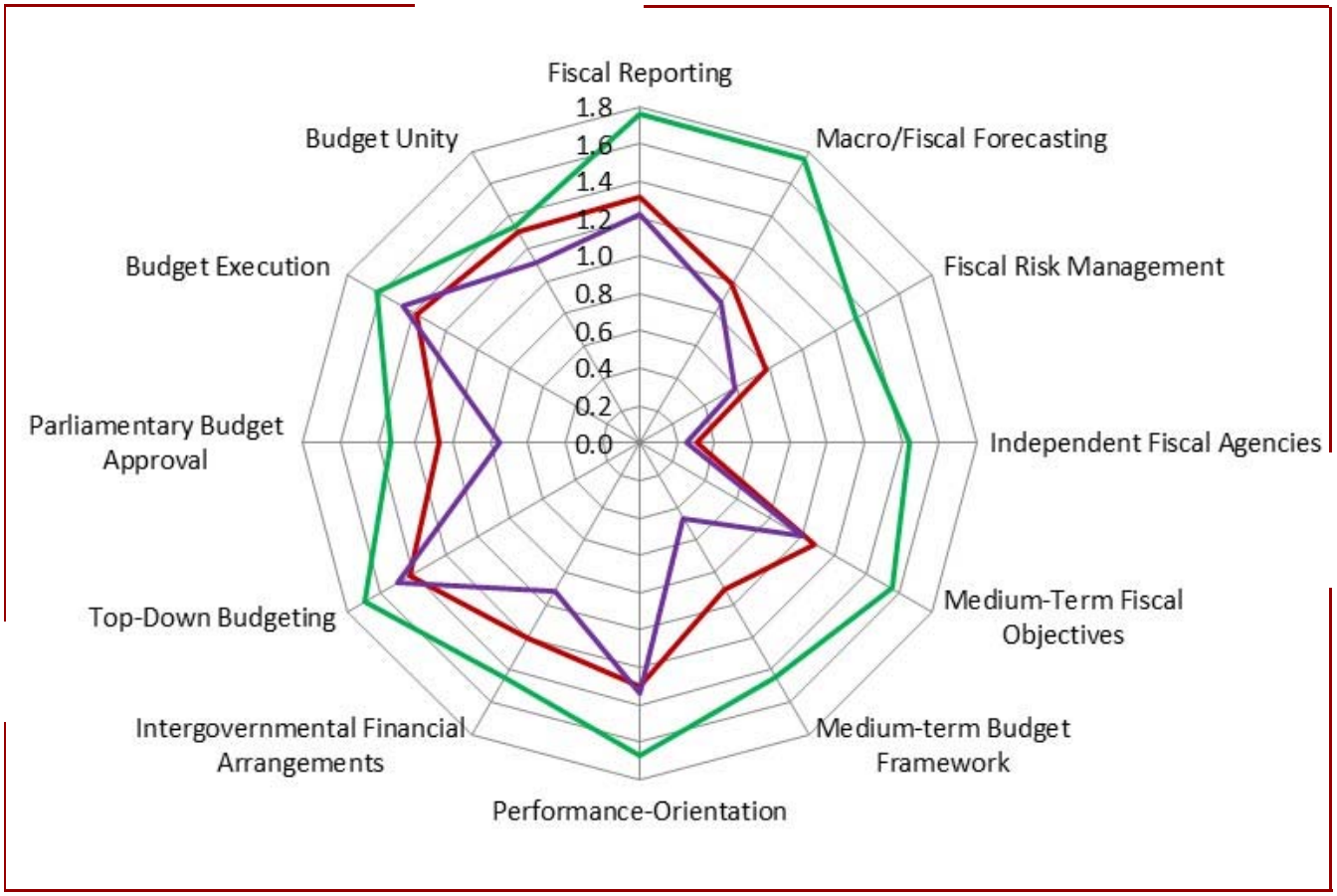


Formulating a Credible Fiscal Strategy

Strength of PFM Institutions in G20: By Income Groups

Understanding Fiscal Challenges

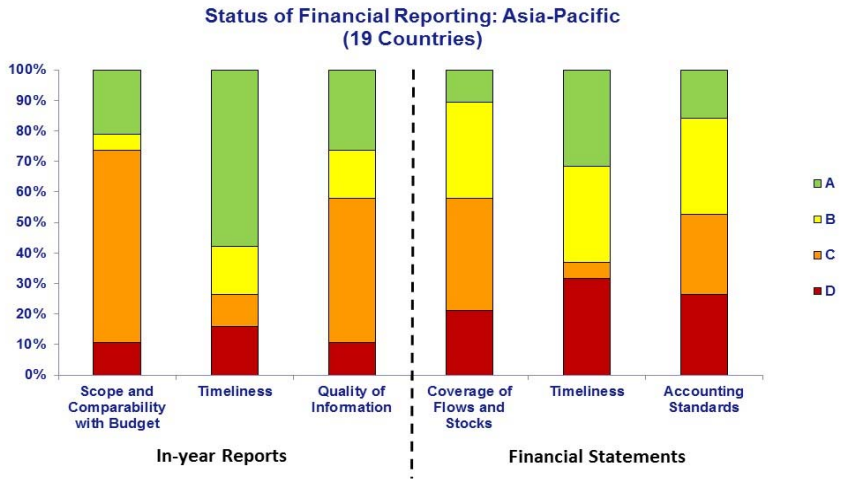
Implementation through the Budget Process



Formulating a Credible Fiscal Strategy

Two key areas for further deliberations

1. **Fiscal and financial reporting** - improvements in the breadth, depth and timeliness of financial statements and fiscal statistics.
   - Within the region, China, Philippines, Mongolia and Thailand have made good progress in producing accrual-based financial statements.



Data source: Public Expenditure and Financial Accountability (PEFA) Assessments

2. **Fiscal Risks Management:** More rigorous accounting, reporting and management of contingent liabilities, and understanding of other fiscal risks.
   - Within Asia, Indonesia and Philippines provide good examples of comprehensive fiscal risk statement.

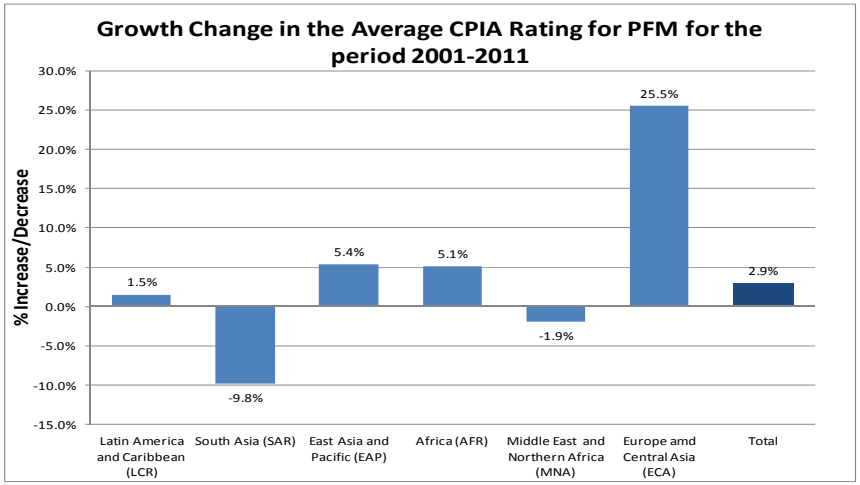
Average Fiscal Cost of Contingent Liabilities Realization (1990 – 2014)

Type of Contingent Liabilities	Number of Episodes	Number of Episodes with Identified Fiscal Costs	Avg. Fiscal Costs (% GDP)	Maximum Fiscal Costs (% of GDP)
Financial Sector	91	82	9.7	56.8
Legal	9	9	7.9	15.3
Subnational Government	13	9	3.7	12.0
SOEs	32	31	3.0	15.1
Natural Disaster(s)	65	29	1.6	6.0
Private Non-Financial Sector	7	6	1.7	4.5
PPPs	8	5	1.2	2.0
Other	5	3	1.4	2.5
Total	**230**	**174**	**6.1**	**56.8**

Source: Bova et. al. , The Fiscal Cost of Contingent Liabilities: A new Dataset, IMF Working Paper WP/16/14

A few lessons…

The pace of reforms has been slow in Asia.



- However, there are several evidences of success:
  - China – treasury single account / cash management reforms
  - India – direct cash transfer
  - Korea – public investment management
  - Malaysia – performance management
  - Philippines – fiscal transparency and risk management

- What do we know about successful change!
  - Political context, ownership and institutional capacity are crucial
  - MOFs are not usually natural innovators, and probably more resistant to organizational change
  - Securing support of line ministries is always challenging
  - Clear goals and objectives - too many reforms begin with a vision of 'best practice' PFM
  - Sequencing of actions is critical, but there is no single best approach
    - "Basics first" is usually not enough; needs to be combined with advanced reforms
  - "Hard" reforms need to be accompanied by "soft" reforms
  - PFM reform is a long game

For more information…

INTERNATIONAL MONETARY FUND

IMF POLICY PAPER

April 7, 2014

BUDGET INSTITUTIONS IN G-20 COUNTRIES: AN UPDATE

IMF staff regularly produces papers proposing new IMF policies, exploring options for reform, or reviewing existing IMF policies and operations. The Staff Report on Budget Institutions in G-20 Countries: An Update, prepared by IMF staff and completed on April 7, 2014, has been released.

The Staff Report was issued to the Executive Board for information.

The policy considerations in this paper should be attributed to IMF staff and not to the IMF or its Executive Board. The analysis was prepared by the staff of the Fiscal Affairs Department and has benefited from comments and suggestions by staff from other IMF departments, as well as by Executive Directors.

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

http://www.imf.org/external/np/pp/eng/2014/040714c.pdf

Public Financial Management Blog

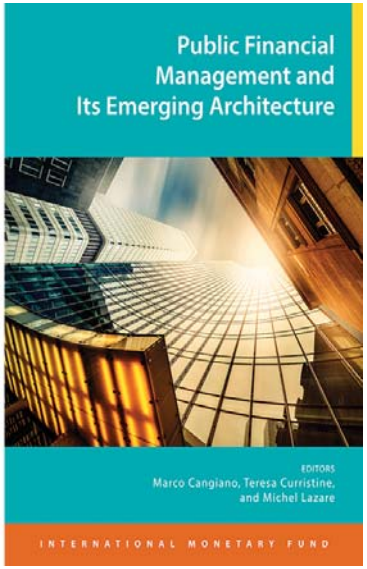
Making Public Money Count

Fiscal Risk: What is Going on at the Leading Edge, and Where to Next?

http://blog-pfm.imf.org/pfmblog/

- FAD Technical Notes and Manuals

http://www.imf.org/external/pubs/ft/tnm/2014/tnm1403.pdf



http://www.imfbookstore.org/

FISCAL TRANSPARENCY

Resources

Fiscal Transparency

Fiscal transparency – the comprehensiveness, clarity, reliability, timeliness, and relevance of public reporting on the past, present, and future state of public finances – is critical for effective fiscal management and accountability. It helps ensure that governments have an accurate picture of their finances when making economic decisions, including of the costs and benefits of policy changes and potential risks to public finances. It also provides legislatures, markets, and citizens with the information they need to hold governments accountable.

The Fiscal Transparency Code and Evaluation are the key elements of the IMF's ongoing efforts to strengthen fiscal surveillance, policymaking, and accountability among its member countries.

Fiscal Transparency Code

Country Reports

Analysis and Research

http://www.imf.org/external/np/fad/trans/