

INTERNATIONAL MONETARY FUND

Fiscal Safeguards

Prepared by the Fiscal Affairs Department
(In consultation with the Finance Department and the Strategy, Policy,
and Review Department)

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I. INTRODUCTION

1. **This paper notifies the Executive Board of a pilot exercise for fiscal safeguards.** The pilot will be conducted by the Fiscal Affairs Department and will cover a limited number of large budget financing cases over the next twelve months. Contrary to the existing safeguards assessment for central banks, participation in this exercise will be voluntary but will follow similar procedures in terms of confidentiality. This paper is circulated for information; no Board decision is sought.

II. BACKGROUND

2. **The pilot exercise stems from the Executive Board’s 2010 review of the Safeguards Assessment Policy and its 2011 update.**¹ The review suggested possible approaches for identifying fiscal safeguards risk in those member countries with Fund programs with high levels of budget financing.² To be manageable, however, the exercise would need to be modest in scope with a focus on the state treasury of the central government, not the wider public sector.³ The review also suggested seven criteria for a possible targeted assessment covering the state treasury.⁴

3. **In the 2010 Board discussion, many Executive Directors encouraged staff to highlight fiscal safeguards risks in staff reports on Fund-supported programs involving direct budget financing.**⁵ The information was to be drawn from existing diagnostic resources such as Reports on the Observance of Standards and Codes (ROSCs)—Fiscal Transparency Module, and the Public Expenditure and Financial Accountability (PEFA) reports.⁶

4. **The 2011 Update concluded that in many cases, available reports would have to be complemented by additional information.** Available ROSC and PEFA reports do

¹ See the Executive Board papers, [Safeguards Assessments—Review of Experience](#); [The Safeguards Policy—Independent Panel’s Advisory Report](#); and [Safeguards Assessments—2011 Update](#).

² The term “budget financing” refers to cases in which a member country uses the domestic counterpart of resources received from the Fund to finance the budget deficit of the government.

³ While review refers to “state treasury,” depending on the country’s legal framework this term can be recognized as equivalent to the ministry of finance or central government payment authority.

⁴ See [Safeguards Assessments—Review of Experience](#), Section IV. B Budget Financing.

⁵ See [IMF Executive Board Concludes Review of the Safeguards Assessments Policy](#).

⁶ A number of directors encouraged exploration of a possible more ambitious approach to conduct targeted fiscal safeguards assessments.

not cover all countries systematically, and/or in sufficient detail, to help identify fiscal safeguards risks. Moreover, for the largest recipients of recent Fund's direct budget financing, there are neither any ROSCs or PEFAs nor any other up-to-date diagnostics. PEFAs are typically not conducted for European countries; only one country out of those with the largest stand-by arrangements (SBAs) has carried out a fiscal transparency ROSC in the last five years.

III. FISCAL SAFEGUARDS

5. **Accordingly, management has decided to initiate a pilot exercise to assess the costs and benefits of different approaches to highlighting fiscal safeguards risks.** In this pilot exercise field and desk-based work would be used to: (i) collect and validate information on existing public financial management practices at the state treasury; (ii) consider how these findings might be used to formulate a view on fiscal safeguards; and (iii) present key findings in the relevant staff reports. A short fiscal safeguard report will summarize the findings of the analysis for each country. This pilot would also provide better indication, of the resource implications of conducting such safeguards.

6. **The pilot will be conducted by FAD experts and participation in the pilot exercise will be voluntary, with limited impact on staff and country resources.** In line with the Executive Board's guidance, an in-depth assessment, similar to that prepared for central banks safeguards assessment is not envisaged at this stage. Measures to ensure confidentiality and to guide engagement with country authorities will, however, be similar to existing safeguards procedures. The findings of the pilot cases will be summarized in staff reports. The fiscal safeguards report will be shared with country authorities and with their consent, consistent with the practice of financial safeguards reports, with the World Bank or the ECB.

7. **In their engagement with country authorities, Fund team will interact principally with ministry of finance officials and the relevant government audit institutions.** They will also hold discussions with the central bank—as regards banking arrangements for the government accounts—and the external auditors of the central government accounts. In countries that are also member of monetary unions, staff may also interact, with the consent of the authorities, with selected regional institutions.

8. **The pilot aims at covering about six large budget financing cases over the next twelve months.** The pilot countries will be selected in consultation with FIN/SPR, and the relevant area department. Most cases are likely to be countries under extended arrangements in Europe. Greece, Ireland, and Portugal are potential early candidates, while some middle and low income countries in other regions will also be invited to participate.

9. **Once the pilot exercise is complete, staff will report to the Executive Board on the key findings by the middle of 2013.** The report will also discuss possible ways of strengthening fiscal safeguards for Fund-supported programs that include large elements of budget financing.