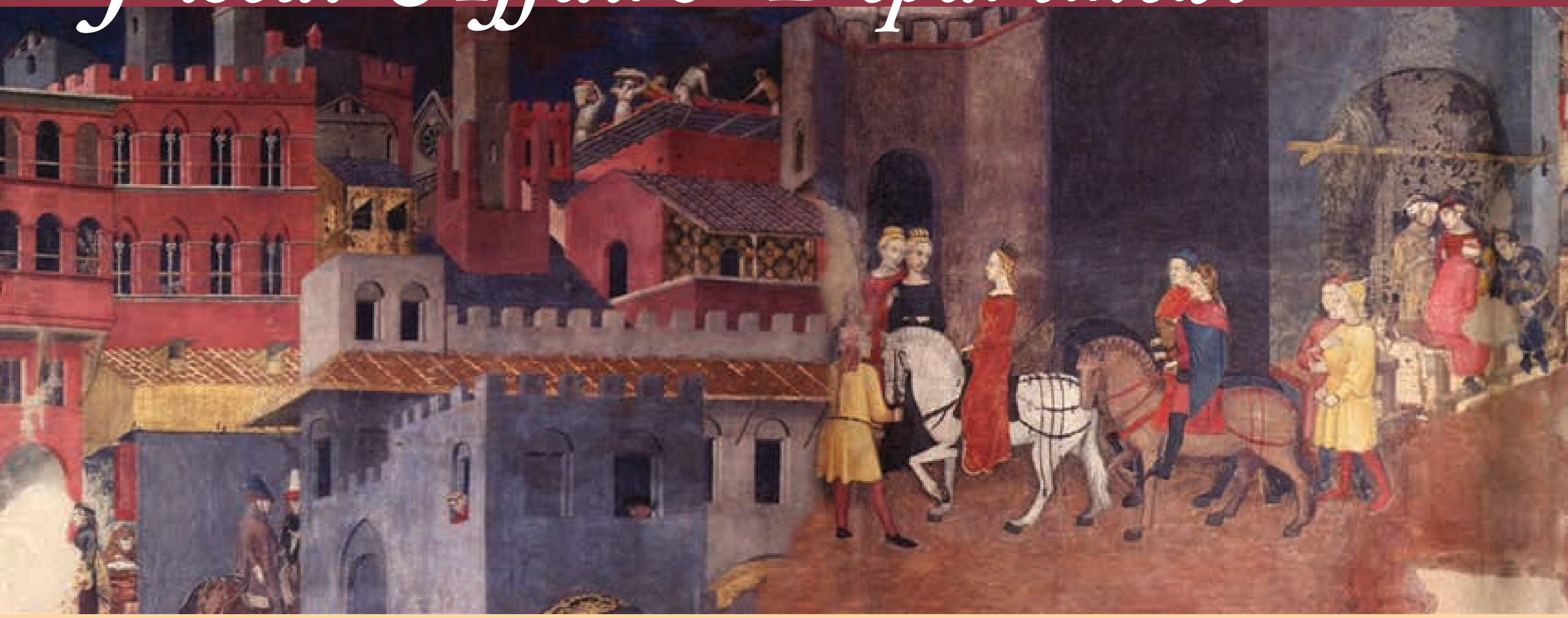
Fiscal Affairs Department



AT A GLANCE, 2015

INTERNATIONAL MONETARY FUND

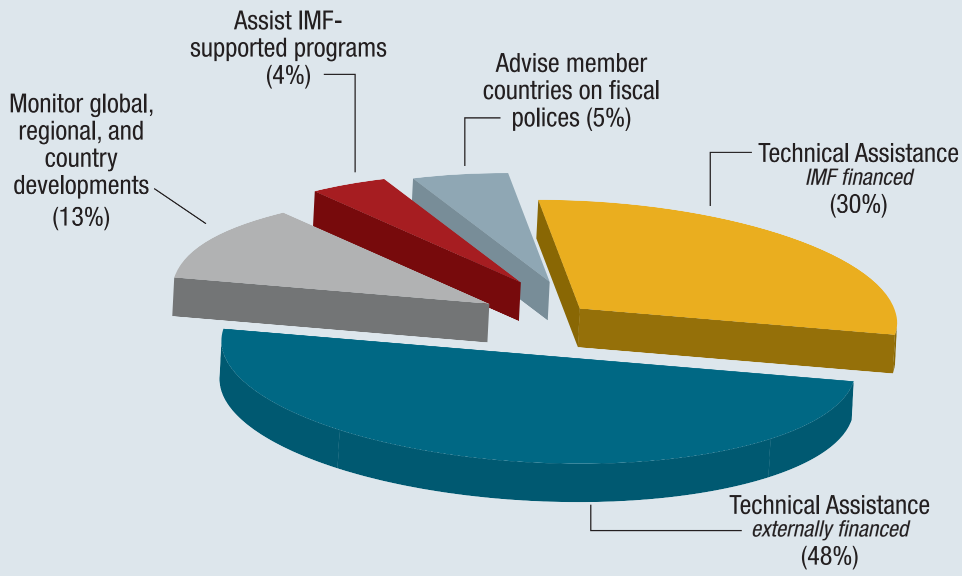
Fiscal Affairs Department

Fiscal policy affects macroeconomic stability, growth, and income distribution. Citizens expect their governments to ensure value for money from public spending, a fair and efficient tax system, and transparent and accountable management of public sector resources.

Since 1964, the Fiscal Affairs Department (FAD) of the International Monetary Fund has been a leading source of fiscal policy and management expertise worldwide. FAD monitors and analyzes global and regional fiscal trends; advises IMF member countries on fiscal issues directly or in close cooperation with the IMF area departments; and contributes to the design and implementation of IMF-supported programs. FAD's analysis and research are at the forefront of fiscal policy debates and its recent work has contributed to the discussion of fiscal policy options to address fiscal challenges in the aftermath of the global financial crisis. Each year, FAD staff and experts provide advisory services to about 130 IMF member countries comprising advanced, emerging, and low-income economies.

FAD receives welcome financial support from donors such as Belgium, Canada, Germany, the European Commission, Japan, the Netherlands, Norway, Sweden, Switzerland, the United Kingdom, and the United States, as well as from other donors, supporting the IMF's Regional Technical Assistance Centers (RTACs) and two Topical Trust Funds (TTFs).

Allocation of Key FAD Outputs in Fiscal Year 2015



Senior Management. From left to right: Martine Guerguil, Abdelhak Senhadji, Kiyoshi Nakayama, Michael Keen, Marco Cangiano, Bernardin Akitoby, Julio Escolano, Vitor Gaspar, Gilbert Terrier, Sanjeev Gupta, Philip Daniel, Benedict Clements, Richard Hughes, Juan Toro, Junji Ueda. Not pictured: Gerd Schwartz, Victoria Perry, Katherine Baer, Matt Davies, David Coady.

FAD staff.

FAD supports the IMF's interactions with member countries by assigning some 58 fiscal economists to IMF surveillance and program teams. Additional countries are also covered through ad hoc participation in area department missions. In addition to analyzing broad fiscal developments, FAD economists conduct in-depth analysis of macrofiscal and structural fiscal issues in the countries to which they are assigned. In carrying out their tasks, these economists draw on the extensive fiscal expertise of FAD as a whole. Their analysis forms part of the IMF staff's reporting on the member countries concerned.

FAD provides technical assistance (TA) to member countries both to enhance their fiscal performance and to strengthen their fiscal institutions. The bulk of FAD TA is provided in four areas:

- **Public financial management:** legal and regulatory framework, budget management, medium-term expenditure framework, cash management, accounting, reporting, and debt management.
- **Tax policy:** general tax policy reviews and specific tax policy advice, particularly in the areas of income tax, value-added tax, and taxation of natural resources, including oil and gas.
- **Revenue administration:** tax and customs administration, social security contribution collection, and implementation of major tax policy changes.
- **Expenditure policy:** short-term expenditure rationalization, social security reform and administration, and incorporation of cost-effective social safety nets into IMF-supported programs.

In addition, assistance is provided in macrofiscal management, public-private partnerships, fiscal risks, fiscal rules, fiscal transparency, and fiscal decentralization.

FAD's Policy Work

FAD is the source of a wealth of policy-oriented analytical work, which is disseminated in several ways.

A key publication is the IMF *Fiscal Monitor*, which forms part of the IMF's World Economic and Financial Surveys. The *Fiscal Monitor* provides a comprehensive assessment of fiscal developments and prospects both globally and for various country groupings, including advanced and emerging economies.

FAD staff also produce other cross-country policy analysis, including papers for the IMF's Executive Board, Staff Discussion Notes, Working Papers, Occasional Papers, Technical Notes and Manuals, and books (available on the IMF's website: www.imf.org), as well as contributions to major economic and public finance journals.

As part of its contributions to the global economic policy dialogue, FAD organizes a number of conferences and seminars each year. Chief among them is the *Fiscal Forum* (http://www.imf.org/external/np/seminars/eng/2013/fiscal/) which is held once a year and draws high-level policy makers from a cross section of IMF member countries. FAD staff also participate in international conferences and meetings where they present the department's analysis and research.

FAD issues an e-newsletter quarterly to inform officials in member countries of its analytical and research work. Readers can subscribe by sending a request to FADsubscribe@imf.org. FAD also maintains a Public Financial Management blog (http://blog-pfm.imf.org), which has a wide readership among officials and academics, and FAD's Senior Staff are regular bloggers on iMFdirect (http://blog-imfdirect.imf.org).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Automatic Fuel Pricing Mechanisms with Price Smoothing: Design, Implementation, and Fiscal Implications
Prepared by David Coady, Javier Arze del Granado, Luc Eyraud, Hui Jin, Vimal Thakoor, Anita Tuladhar, and Lilla Nemeth
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Technical Assistance Delivery

FAD's TA activities take different forms and are tailored to the circumstances of each member country. Missions from headquarters constitute an important element of FAD's TA. These missions work with the authorities (and other TA providers) in analyzing the sources of weakness in fiscal institutions and drawing up an action plan to remedy these weaknesses. They also provide advice on fiscal policy design and implementation and help the authorities monitor the implementation of fiscal reforms. A report on findings and recommendations is provided to the authorities at the end of each mission. These reports are prepared for the authorities and shared only with the World Bank, but encouraged by the IMF, the authorities of the member country themselves may decide these reports should be more widely distributed. FAD TA also includes stand-alone expert assignments that assist countries in implementing mission recommendations. These assignments can be resident, short-term, peripatetic (i.e., repeat visits), or be fielded from the IMF's Regional Technical Assistance Centers (RTACs).The distribution of missions and follow-up assistance through expert assignments is shown on the following two world maps.

FAD's TA has been vital in countries affected by the recent global financial crisis. Intensive TA has been provided in a number of policy areas critical to helping these countries respond and recover from the crisis. Examples include:

- rationalizing government expenditures in the short run and strengthening pension systems (e.g., Cyprus, Greece, and Portugal);
- developing legislative and medium-term fiscal frameworks to improve fiscal outcomes and tighten budget execution and expenditure controls and to improve cash management (e.g., Greece, Iceland, Portugal, Romania, and Serbia);
- identifying tax policy options (e.g., Greece, Portugal, and Romania); and
- fortifying tax administration in response to sharp crisis-related revenue declines (e.g., Greece, Latvia, and Portugal).

TA of this kind has highlighted characteristics unique to FAD and IMF TA. First, such TA can respond quickly to urgent government requests—with specialized teams often in the field on short notice and sometimes ahead of other IMF operations. Second, the technical diagnostics and remedial recommendations can provide input to the design of IMF-supported programs.

TA provided by Regional Technical Assistance Centers (RTACs). To help deliver effective follow-up assistance and to support implementation of reforms proposed by missions from headquarters, the IMF has a network of nine RTACs covering about 96 countries in the Pacific (PFTAC), the Caribbean (CARTAC), East, West, Central, and Southern Africa (AFRITAC East, AFRITAC West, AFRITAC West II, AFRITAC Central, and AFRITAC South), the Middle East (METAC), and Central America (CAPTAC-DR). Through a team of resident advisors, supplemented by short-term experts, each RTAC provides TA in the core areas of the IMF's expertise, including macrofiscal, public financial management, and revenue administration. Their work is part of FAD's TA program and is subject to the same rigorous supervision and quality control as headquarter-led activities.

Topical Trust Funds. The IMF has launched two multi-donor topical trust funds supporting TA to members in Tax Policy and Administration (TPA TTF) and Managing Natural Resource Wealth (MNRW TTF). The assistance financed through these trust funds benefits from the IMF's technical assistance infrastructure and proven expertise. It also provides a vehicle for donor coordination and commissioning focused policy development in these areas.

Macrofiscal Analysis

FAD's macrofiscal work includes cross-country analysis and monitoring of fiscal developments and risks, research on emerging fiscal issues, and analytical support at the individual country level. The latter is achieved by assignment of FAD staff to area department teams to help analyze key policy issues.

In addition, FAD offers TA on various macrofiscal issues, including:

Macrofiscal modeling and the improvement of forecasts used for fiscal policy formulation, budget preparation and risk assessments.

Macroeconomics and the fiscal position, including analyzing the impact of changes in the macroeconomic environment on the fiscal position, the impact of fiscal policy on macroeconomic outturns, the sustainability of fiscal policies, the phasing and design of fiscal adjustment plans, the short-, medium- and long-term effects of taxes and public expenditure, fiscal-financial sector linkages, and the coordination of monetary and fiscal policy.

Guidance on fiscal policy formulation, including defining the role and consistency of fiscal objectives and targets, coordinating policies across different levels of government, managing government assets and liabilities, and designing rules-based fiscal frameworks, stabilization and savings mechanisms, and independent fiscal institutions.

Organizational aspects of the macrofiscal function, including defining the roles and responsibilities of ministries of finance, strengthening their capacity to carry out macrofiscal functions, and designing a macrofiscal unit.

Fiscal risk assessment, transparency and disclosure, and management, including advising on analytical methods, the adequacy and reliability of fiscal reporting, as well as coordination and other institutional modalities.

Considerable synergies with other TA areas provide guidance in the design of specific tax and expenditure policies and institutions to achieve macrofiscal objectives.

The following boxes illustrate the diversity of FAD's macrofiscal work.

Fiscal Monitor

The *Fiscal Monitor* follows and analyzes the latest public finance developments worldwide, provides updates on the fiscal implications of the crisis, discusses medium-term fiscal projections, and assesses policies to put public finances on a sustainable footing.

The *Fiscal Monitor* is one of the three IMF cross-country flagship publications, in addition to the World Economic Outlook (WEO) and the Global Financial Stability Report (GFSR). Two reports are prepared each year together. The *Fiscal Monitor*'s projections are based on the same database used for the WEO and GFSR. The publication and associated datasets are available at: http://www.imf.org/external/ns/cs.aspx?id=262 and also on the IMF eLibrary iPad app.

In addition to analyzing and surveying fiscal developments, the *Fiscal Monitor* also identifies new medium-term fiscal challenges and discusses policy options. Past reports have included research on spending pressures arising from health care entitlements, on the potential role of fiscal devaluations in supporting competitiveness, on fiscal policies to address weak employment and on the reform of energy subsidies.

Fiscal Frameworks for Resource-Rich Developing Countries (RRDCs)

Two of the key issues facing RRDCs are how to (i) ensure long-term sustainability and intergenerational equity given the natural resource exhaustibility and, (ii) avoid boom-bust cycles, given resource price volatility. Concurrently, their large infrastructure and human capital needs also call for more flexible fiscal frameworks.

The appropriate instruments depend on the resource horizon length. For RRDCs with long resource-reserve horizons, primary balance rules with resource price smoothing to manage volatility are more suitable. For RRDCs with short resource horizons, frameworks allowing a front-loaded use of resource wealth, while guaranteeing fiscal sustainability, may be more appropriate provided two conditions are satisfied. First, the front-loading needs to be consistent with absorptive capacity constraints. Second, RRDCs need to strengthen their fiscal institutions to select, monitor, and evaluate public investment projects, and to collect non-resource revenues.

FAD created two additional fiscal frameworks to analyze the trade-offs of front-loading public investment. The first is a modified version of the "Permanent Income Hypothesis (PIH) Model." The second is the Fiscal Sustainability Framework (FSF) in which, after an initial front-loaded investment transforming resource revenues into physical assets (instead of financial assets), a non-resource primary balance (NRPB) is estimated to keep the remaining resource wealth constant (PIH). The assumption is that higher non-resource growth (from the investment front-loading) results in higher non-resource revenues. An excel tool developed by FAD implements these frameworks. It also simulates different price-smoothing primary balance rules to address the issue of resource price volatility in RRDCs.

Reassessing the Role and Modalities of Fiscal Policy in Advanced Economies

A recent FAD paper investigates how developments since the 2008–09 economic and financial crisis have changed the views of economists and policymakers on fiscal policy in advanced economies (AEs). The main conclusions are the following:

- **Fiscal risks and fiscal sustainability.** The emerging post-crisis consensus suggests lower values for what constitutes "safe" sovereign debt to GDP ratios, in light of macroeconomic shocks and contingent liabilities that were much larger than previously estimated. It also prompted a more risk-based approach to analyzing debt sustainability. Additionally, central bank actions since 2008 have motivated a renewed focus on the interaction between fiscal and monetary policy.
- **Effectiveness of countercyclical fiscal policy.** Fiscal policy can be an appropriate countercyclical policy tool when monetary policy is constrained by the zero lower bound, the financial sector is weak, or the output gap is large. Nevertheless, some reservations regarding the use of discretionary fiscal policy remain valid.
- **Design of fiscal adjustment.** Countries that are not under market pressure should adjust at a gradual pace in the context of a credible medium-term fiscal adjustment plan. Frontloading may be unavoidable in countries under market pressure, though there may be "speed limits" beyond which adjustment can be counterproductive. The appropriate mix of expenditure and revenue measures depends on country-specific factors and equity considerations.
- **Role of fiscal institutions.** The crisis has revealed the challenges involved in establishing credible medium-term budget frameworks and fiscal rules that are also sufficiently flexible to respond to cyclical fluctuations. Moreover, shortcomings in fiscal reporting point to the need to improve fiscal transparency.

Expenditure Policy

The quality of spending has a direct bearing on growth and social development in IMF member countries. FAD provides a range of analytical and advisory services in this area:

Expenditure efficiency. The department, where appropriate in close collaboration with the World Bank, provides advice on short-term expenditure rationalization, aimed at identifying sustainable ways of raising the efficiency of public spending. Advice is provided on employee compensation, pensions and other social insurance, health and education spending, subsidies, and social assistance.

Equity and social spending. The department is engaged in work on the effects of public expenditure and tax policies on equity.

Energy subsidy reform. The department is engaged in work on "how to do" energy subsidy reform. This has included technical assistance and policy work on how to protect the poor during subsidy reform.

Social safety nets. Advice is provided on incorporating cost-effective social safety nets during fiscal adjustment.

Public-private partnerships (PPPs). TA to member countries on PPPs aims at helping countries manage the fiscal risks of PPPs, in particular through strengthening institutional capacity and transparency.

Age-related spending. Fiscal consolidation efforts in advanced and emerging economies will require that countries confront spending pressures on public health and pensions. TA on pension reform and FAD's policy work are helping countries meet this challenge.

Fiscal policy and employment. The department is engaged in policy work assessing the impact of expenditure and tax reforms to boost employment.

Energy Subsidy Reform

Subsidies are intended to protect consumers by keeping prices low. But they come at a high cost. Subsidies are expensive for governments—and therefore taxpayers—to finance and can hinder efforts to reduce budget deficits. They also compete with other priority public spending on roads, schools, and healthcare. Energy subsidies are a wider and more pervasive problem, with major consequences for many individual countries, but also for the global economy and the environment.

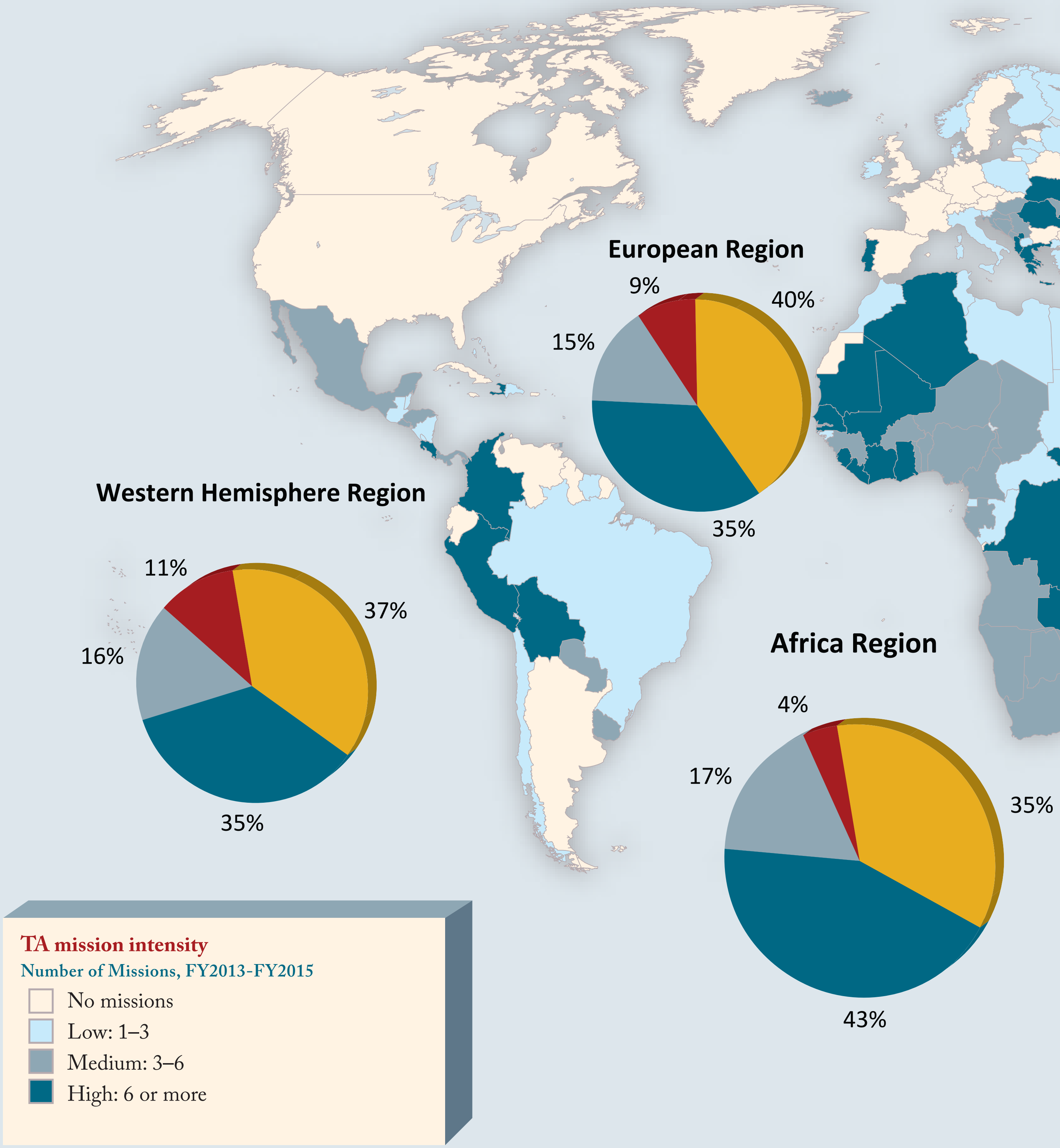
A book prepared by staff from FAD, African, and Middle East and Central Asia departments, *Energy Subsidy Reform: Lessons and Implications*, reviews developments in subsidies for petroleum products, electricity, gas, and coal in 176 countries, showing how pervasive energy subsidies are in advanced, emerging market, and developing countries. It then presents an analysis of "how to do" energy subsidy reform, drawing on insights from 22 country case studies.

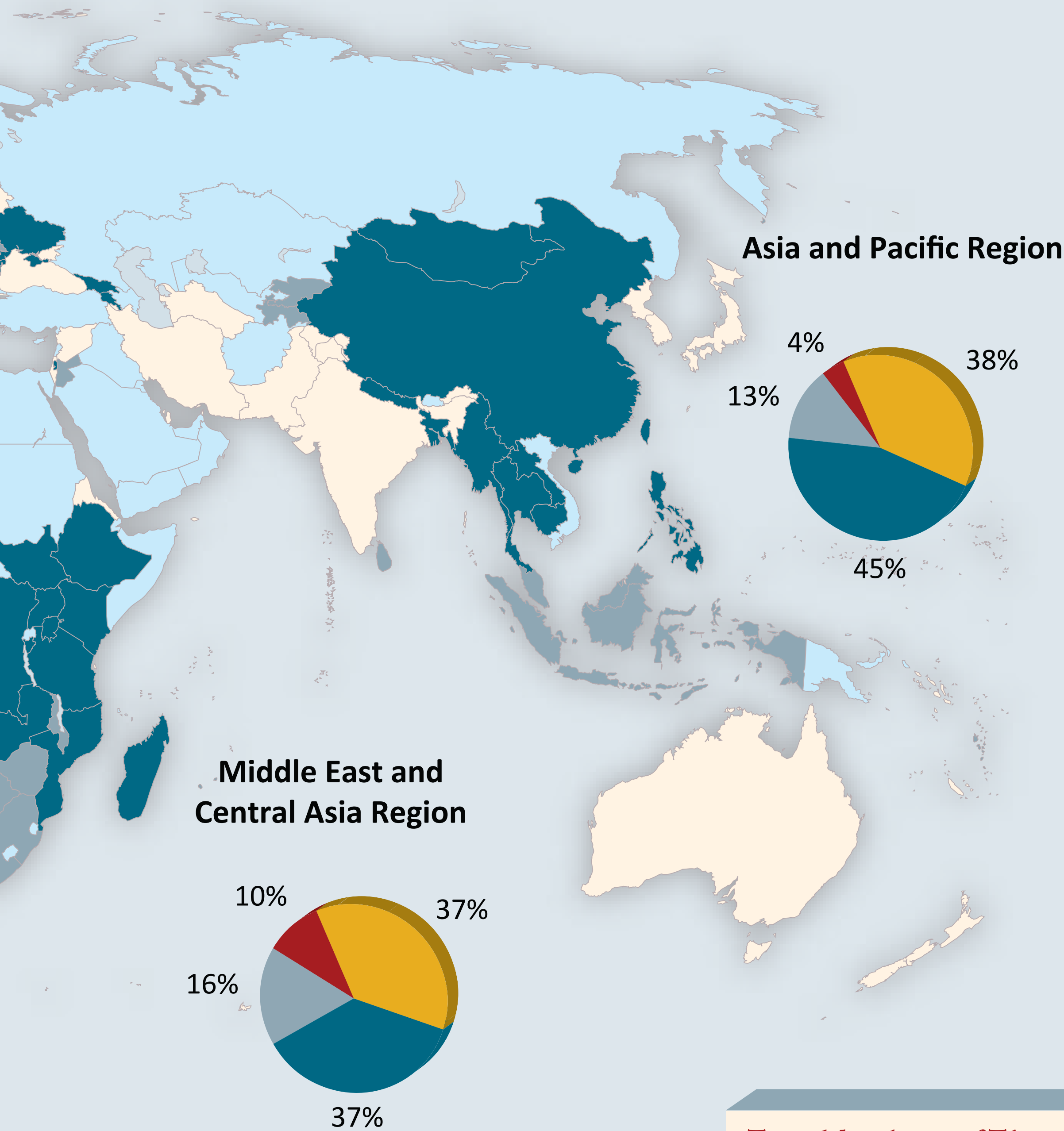
Nicholas Stern, IG Patel Professor of Economics and Government, London School of Economics and Political Science, and President of the British Academy, comments that "In this work the IMF has changed the debate on energy subsidies…It is a splendid contribution."

Energy Subsidy Reform: Lessons and Implications, ed. by B. Clements, D. Coady, S. Fabrizio, S. Gupta, T. Alleyne, and C. Sdralevich. The book is available in Arabic, English, and French.

Technical Assistance Missions from the Fiscal Affairs Department

Policy Advice and Development of Fiscal Reforms and Action Plans





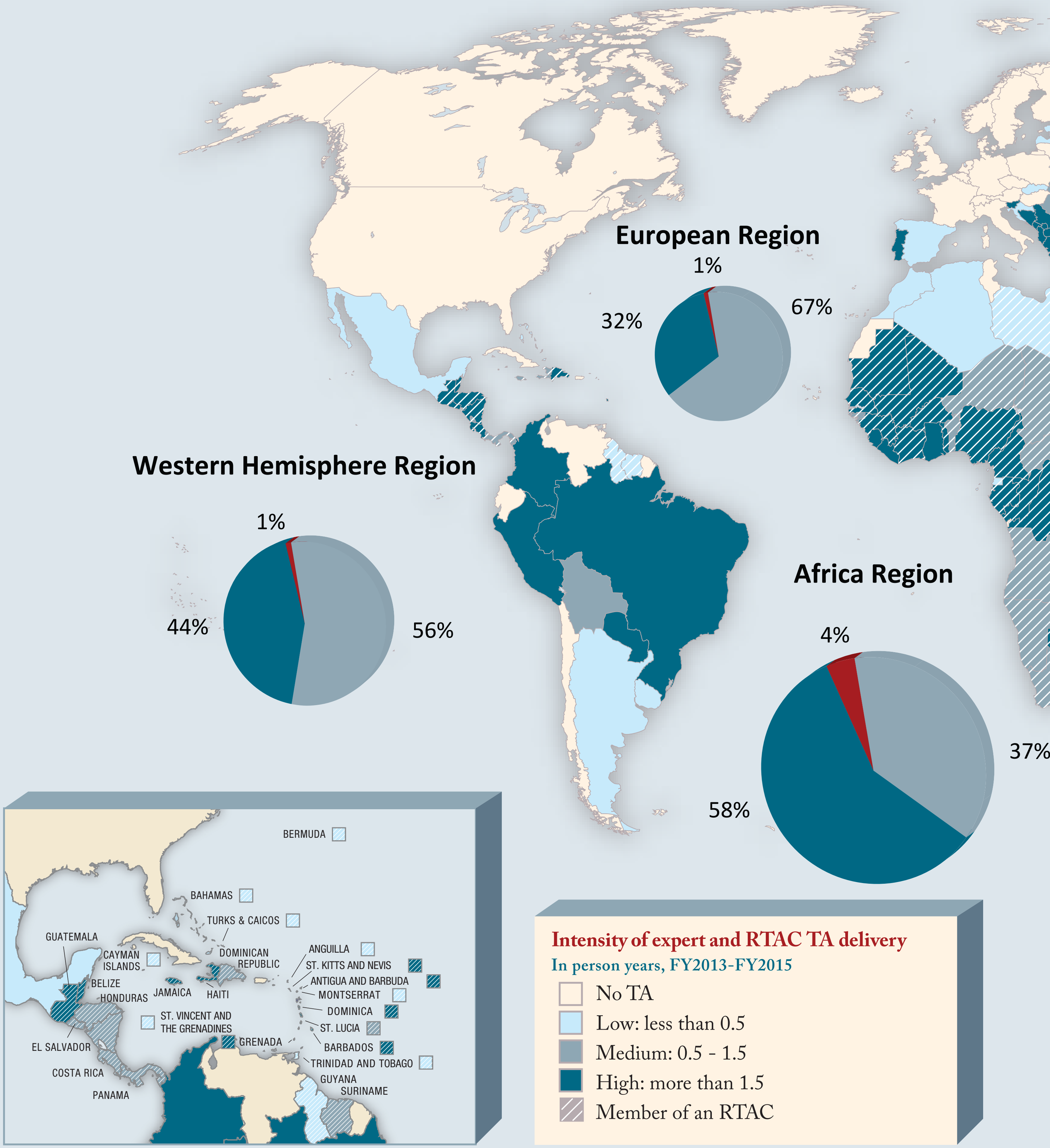
Topical distribution of TA missions by region

FY2013-FY2015

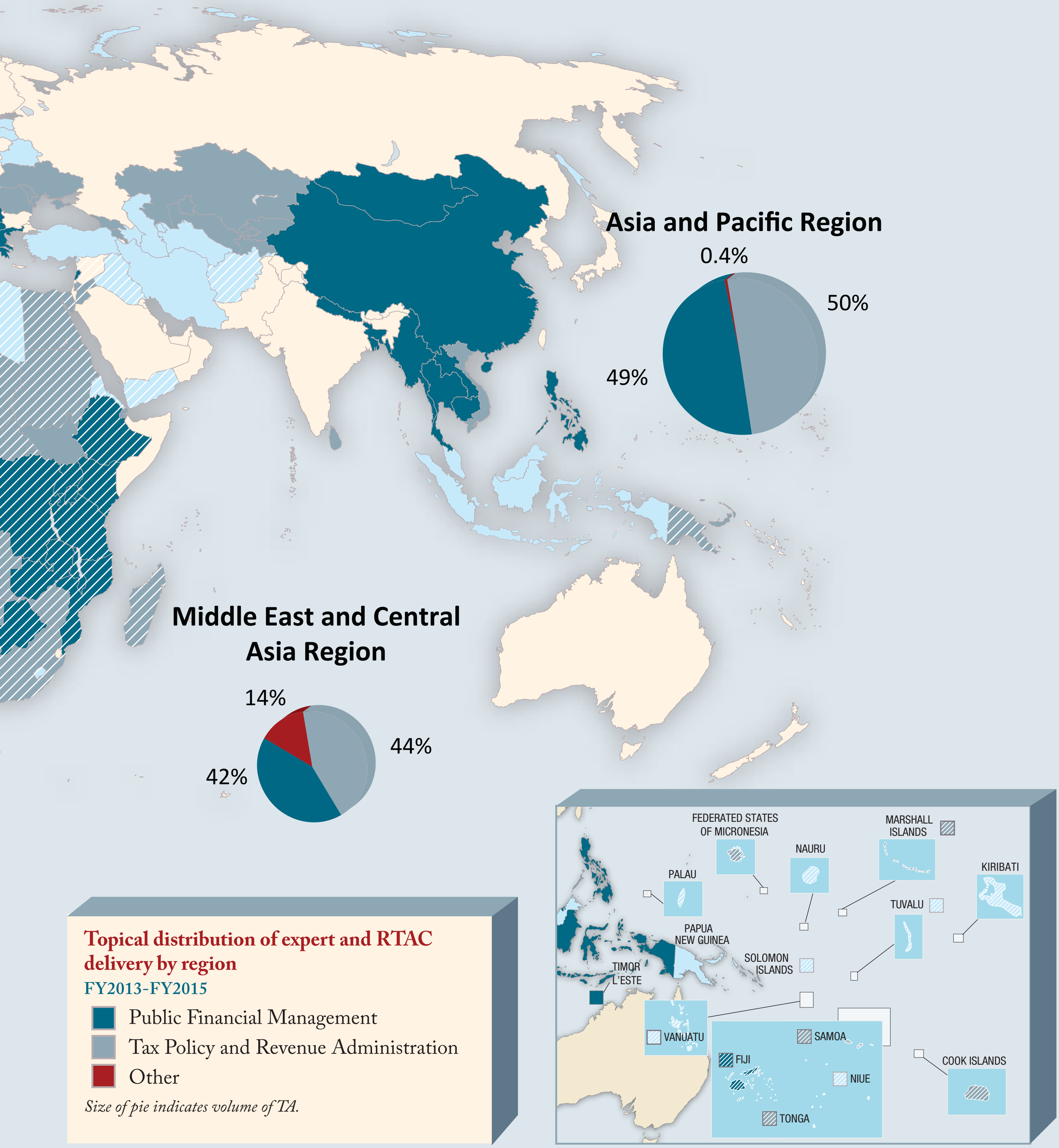
- Revenue Administration
- Public Financial Management
- Tax Policy
- Other

Size of pie indicates volume of TA.

Strengthening Institutions and Fiscal Management Capacities



from Regional Technical Assistance Centers (RTACs)



Topical distribution of expert and RTAC delivery by region

FY2013-FY2015

- Public Financial Management
- Tax Policy and Revenue Administration
- Other

Size of pie indicates volume of TA.

Modernizing revenue administration is a key objective in many countries. FAD provides TA in tax and customs administration to help design reform strategies to achieve optimal revenue levels at the lowest administrative and compliance cost.

Revenue administration management and organization. FAD tailors to country circumstances reforms aimed at administrative effectiveness and efficiency. These reforms include an effective headquarters that provides strategic planning and monitors field office activities against clear performance measures, and appropriate reform management arrangements to ensure success.

Tax administration. TA includes guidance to improve management and performance of specific taxes (e.g., VAT, income taxes, excises, and social contributions). It develops segmentation strategies for different taxpayer groups, such as large business tax administration, and simplified regimes for small businesses. Assistance is also provided to strengthen core functions (e.g., audit, enforcement, filing, and payment), based on voluntary compliance, taxpayer self-assessment, effective taxpayer services, and well-designed IT strategies.

Customs administration. FAD TA reflects the international standards established by the World Customs and World Trade Organizations as well as the requirements of regional agreements. Many low-income countries rely on revenues from import taxes and duties, even as they undertake trade facilitation reforms to reduce costs and increase export competitiveness. FAD TA strategies balance both objectives by strengthening legislative and regulatory controls and simplifying procedures and improving basic revenue assessment and collection.

Fiscal assessment tools. The Revenue Administration Fiscal Information Tool (RA-FIT) is a tax and customs data gathering initiative that is set to become the common data gathering platform used by all international organizations involved in revenue administration data collection. It targets participation of more than 150 countries. The data are both quantitative and qualitative, and will be analyzed and made available to participating countries and technical assistance providers through an online dissemination portal. The Tax Administration Diagnostic Assessment Tool (TADAT) is a multi-development partner effort that provides a standardized performance assessment of a country's system of tax administration. It focuses on nine key outcome areas ranging from integrity of the registered taxpayer base to accountability and transparency. Further details are available at the TADAT website (www.tadat.org).

Uganda

Challenge

Uganda has been implementing a comprehensive revenue administration reform program in line with international good practices since 2004. This reform includes modernizing the revenue administration's organizational structure, administrative processes (including preparation for administering revenues from oil), and information technology systems. However, the tax revenue to GDP ratio has oscillated between 11.7 and 12.7 percent of GDP for several years—a level that is well below the average for Sub-Saharan Africa—despite the fact that the economy has been growing.

Approach

FAD has helped the Ugandan Revenue Authority by providing both high-level advice and implementation support through a pragmatic approach that included several headquarters missions and short-term expert assignments. Staff provided specific advice on actions the authorities could take to strengthen taxpayer compliance and the effectiveness of administrative actions, with a view to raising tax revenue levels. It also helped the authorities to better understand the underlying causes of the low revenue productivity by analyzing VAT revenue performance and developing an estimate of the VAT gap (difference between potential revenue collections and actual collections).

Results

- Tremendous gains have been made in modernizing revenue administration processes and procedures, including preparations for administering oil revenue.
- There have also been systematic efforts to strengthen the workforce's capacities and skills in information technology.
- Calculation of a first-ever VAT gap estimate, which will better inform the design and mix of measures (policy and administrative) needed to improve tax revenue performance.

Kampala City, Uganda

Ulan Bator, Mongolia

Mongolia

Challenge

In Mongolia, some 330 large enterprises contribute about 60 percent of state tax revenue with mining companies accounting for more than 70 percent. Improving large tax payer administration is therefore critical for greater revenue mobilization. In this context, the FAD has been assisting the Mongolian Tax Administration since 2010 to enhance the capacity of its *large taxpayer office* (LTO), with a special focus on mining companies.

Approach

With funding from the Japanese authorities and the Managing Natural Resources Wealth trust fund, FAD TA missions developed a reform strategy to strengthen the LTO and an action plan to implement the reforms. Implementation support is being provided, in collaboration with the United States Treasury and the World Bank, in the form of tax administration experts and information technology. The LTO has been reorganized along functional lines with specialized units for mining companies. A new mining sector compliance strategy has been implemented. Legislations are being amended to fill gaps and remove ambiguities. Taxpayer services have been improved and new audit methods introduced to mining, construction and banking sectors. Finally, agreements for exchange of information have been arranged with the Mineral Resources Authority and the Petroleum Authority of Mongolia.

Results

- The large taxpayer reforms have had a positive impact on tax collection. High rates of timely tax return filing (nearly 100 percent) and payment have been achieved.
- Over the next year, the LTO intends to introduce a comprehensive set of performance measures including tax administration results, taxpayer satisfaction, and tax officer engagement.

FAD provides support to enhance the efficiency, fairness, and productivity of tax systems. FAD's advice covers the design and implementation of reforms of corporate and personal income taxes, taxes on capital income and financial institutions, VAT and other indirect taxes, local property taxes, and—increasingly—work on fiscal regimes for natural resource extraction, and environmental taxes. Recent work includes:

Taxes and the global economic crisis. FAD has extensively analyzed the interactions of tax policy and the financial crisis, and the tax policy aspects of strategies to restore fiscal sustainability. This is reflected in both analytical work and technical assistance to member countries.

Tax coordination, customs unions, and tax incentives. Increased trade and capital mobility, amplified by regional trade arrangements, necessitate improved tax coordination. FAD assists regional organizations and country groups with these problems.

Financial markets and instruments. The department provides advice on taxation of financial instruments and institutions, as well as on tax aspects of capital market development.

Recurrent taxes on real property. An area of increasing concern for member countries is more effective use of these taxes, which are both economically efficient and equitable. The tax policy division advises on design and strategy for implementation of modern property tax systems.

International aspects of corporate taxation. The effects of bi-lateral tax treaties, transfer pricing and international corporate income tax structures are increasingly relevant for both developing and industrial countries.

Interaction of the tax system and labor market outcomes. Recent work includes technical assistance advice and a paper covering both tax and expenditure aspects of structural labor market problems.

Financial Sector Taxation

The recent financial crisis has raised the question of whether tax policy could be used to curb leverage and excessive risk-taking in the financial sector as well as to recoup revenues. The IMF has played a leading role in exploring these questions.

In its 2010 report to the G-20 (http://www.imf.org/external/np/g20/pdf/062710b.pdf), the IMF proposed two new quasi-regulatory tax instruments for the financial sector: the financial stability contribution (FSC) and the financial activities tax (FAT). The FSC is a tax on bank debt aimed at discouraging leverage and raising revenue to fund potential bailouts. It has been adopted by eleven European countries as well as Korea. Preliminary research shows that these FSCs have been successful in reducing bank leverage.

The FAT-1 is a tax on cash-flow profits and compensation in the financial sector. Iceland introduced the first FAT-1 in 2012. The FAT-2 and FAT-3 are surtaxes on abnormal profits and compensation in the financial sector. The bonus taxes enacted by the UK, France and Italy following the crisis can be viewed as partial FATs on compensation.

A financial transaction tax (FTT) has also been promoted by some governments and civil society organizations to raise revenue and reduce financial risks. The IMF has analyzed the pros and cons of this option (http://www.imf.org/external/pubs/ft/wp/2011/wp1154.pdf), which it regards as less effective than the FAT or FSC. France and Italy recently introduced FTTs covering mainly shares, their derivatives and high-frequency trading, which may become models for a multilateral European FTT.

In 2014 FAD staff published a book *Getting Energy Prices Right: From Principle to Practice.* It emphasizes that energy taxes can produce substantial environmental and revenue benefits, and are an important component of countries' fiscal systems. The book also develops a practical methodology, and associated tools, to show how the major environmental damages from energy can be quantified for different countries and used to design an efficient set of energy taxes. The results suggest there is pervasive mispricing of energy across developed and developing countries alike, with much at stake in policy reform.

Public Financial Management

Strong Public Finance Management (PFM) systems are essential for effective delivery of intended budget policies. FAD's TA in the PFM area focuses on:

Comprehensive assessment of PFM systems. FAD provides in-depth diagnostic analysis of the efficiency, effectiveness, and transparency of PFM systems through the use of instruments such as TA missions, Fiscal Transparency Assessments, and public expenditure and financial accountability (PEFA) assessments.

Basic PFM systems. Advice is provided to member countries to strengthen budget processes and enhance the role of the budget as the central instrument for fiscal management and allocation of public resources. FAD typically advises on the coverage of the budget; budget formulation and execution processes; accounting and fiscal reporting; treasury management, including cash and debt management; the introduction of financial management information systems; and, internal control and audit.

More advanced reforms. Once basic PFM systems have been established, FAD promotes the adoption of good international practices in areas such as development of medium-term fiscal and budget frameworks; introduction of performance based budgeting; and the adoption of accrual accounting standards.

Legal Frameworks. The department assists in reviewing the legal frameworks surrounding PFM systems and advises on changes required to support PFM reforms. This includes preparation of primary legislation, such as budget system laws and fiscal responsibility legislation and the design of secondary legislation and regulations. This work is typically carried out in conjunction with the IMF's Legal Department.

Restructuring of central finance agencies. FAD provides expertise in the re-organization of Ministries of Finance, state treasuries and debt and cash management offices to ensure that the right institutional and organizational structures are in place to enable the effective management of public resources.

New Fiscal Transparency Code and Evaluations

In the 2012 paper "Fiscal Transparency, Accountability, and Risk", FAD reviewed the state of fiscal transparency in the wake of the crisis. The paper recommended improvements in the Fund's fiscal transparency standards and evaluation. Based on these recommendations, FAD prepared a new Fiscal Transparency Code which comprises a set of principles built around four pillars : (i) fiscal reporting; (ii) fiscal forecasting and budgeting; (iii) fiscal risk analysis and management; and (iv) resource revenue management. For each transparency principle, the Code differentiates between basic, good, and advanced practices to provide countries with clear milestones toward full compliance with the Code and ensure its applicability to the broad range of IMF member countries. Pillars I-III have been issued while a draft of Pillar IV is under public consultation and will be completed later this year.

The new Code provides the basis for the Fiscal Transparency Evaluations (FTEs), which have replaced the fiscal ROSC. FTEs provide countries with:

- a comprehensive assessment of their fiscal transparency practices against the differentiated standards set by the Code;
- rigorous analysis of the scale and sources of fiscal vulnerability based on a set of fiscal transparency indicators;
- a summary of their fiscal trvansparency strengths and reform priorities through a set of heat maps;
- a sequenced fiscal transparency action plan to help them address those reform priorities; and
- the option of undertaking a modular assessment focused on just one Pillar of the Code.

FTEs are carried out at the request of countries. They also support capacity building, including the prioritization and delivery of FAD technical assistance. By end-February 2015, ten FTEs have been conducted, covering countries across a wide range of regions and income levels, and eight of these reports have been published.

Selected Recent Publications

IMF Fiscal Monitor

Fiscal Monitor: Back to Work: How Fiscal Policy Can Help, Fiscal Affairs Department, International Monetary Fund, Washington DC, October 2014

Fiscal Monitor: Public Expenditure Reform: Making Difficult Choices, Fiscal Affairs Department, International Monetary Fund, Washington DC, April 2014

Fiscal Monitor: Taxing Times, Fiscal Affairs Department, International Monetary Fund, Washington DC, October 2013

Fiscal Monitor: Fiscal Adjustment in an Uncertain World, Fiscal Affairs Department, International Monetary Fund, Washington DC, April 2013.

Fiscal Monitor: Taking Stock: A Progress Report on Fiscal Adjustment, Fiscal Affairs Department, International Monetary Fund, Washington DC, October 2012.

Fiscal Monitor Update: Nurturing Credibility While Managing Risks to Growth, Fiscal Affairs Department, International Monetary Fund, Washington DC, July 2012.

Fiscal Monitor: Balancing Fiscal Policy Risks, Fiscal Affairs Department, International Monetary Fund, Washington DC, April 2012.

Fiscal Monitor Update: As Downside Risks Rise, Fiscal Policy Has To Walk a Narrow Path, Fiscal Affairs Department, International Monetary Fund, Washington DC, January 2012.

IMF Staff Discussion Notes

Income Inequality and Fiscal Policy, F. Bastagli, D. Coady, and S. Gupta, SDN/12/08 (Revised), 2012.

Fiscal Frameworks for Resource Rich Developing Countries, T. Baunsgaard, M. Villafuerte, M. Poplawski-Ribeiro, and C. Richmond, SDN/12/04, 2012.

Accounting Devices and Fiscal Illusions, T. C. Irwin, SDN/12/02, 2012.

IMF Books and Occasional Papers

Public Financial Management and Its Emerging Architecture, Marco Cangiano, Teresa R. Curristine, and Michel Lazare (eds), April 2013.

The Challenge of Public Pension Reform in Advanced and Emerging Economies, Benedict Clements, David Coady, Frank Eich, Sanjeev Gupta, Alvar Kangur, Baoping Shang, and Mauricio Soto, January 2013.

Policy to Mitigate Climate Change: A Guide for Policymakers, R. de Mooij, I. W.H. Parry, and M. Keen (eds), 2012.

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Contacts

Vitor Gaspar
Director
vgaspar@imf.org

Sanjeev Gupta
Deputy Director
TA to Africa
sgupta@imf.org

Gilbert Terrier
Deputy Director
TA to Western Hemisphere
gterrier@imf.org

Gerd Schwartz
Deputy Director
TA to Europe
gschwartz@imf.org

Michael Keen
Deputy Director
TA to Middle East and Central Asia
mkeen@imf.org

Martine Guerguil
Deputy Director
TA to Asia and Pacific Region
mguerguil@imf.org

Kiyoshi Nakayama
Advisor
knakayama@imf.org

Philip Daniel
Advisor
pdaniel@imf.org

Junji Ueda
Advisor
jueda@imf.org

Julio Escolano
Advisor
jescolano@imf.org

Richard Hughes
Division Chief,
Public Financial Management I
Anglophone Africa, Middle East and Central Asia, and Europe
rhughes@imf.org

Benedict Clements
Division Chief,
Fiscal Policy and Surveillance
bclements@imf.org

Bernardin Akitoby
Division Chief,
Fiscal Operations II
bakitoby@imf.org

Katherine Baer
Division Chief,
Revenue Administration II
Africa and Western Hemisphere
kbaer@imf.org

David Coady
Division Chief,
Expenditure Policy
dcoady@imf.org

Marco Cangiano
Assistant Director and Division Chief,
Public Financial Management II
Asia and the Pacific, Western Hemisphere, and non-Anglophone countries in Africa
mcangiano@imf.org

Abdelhak Senhadji
Assistant Director and Division Chief,
Fiscal Operations I
asenhadji@imf.org

Juan Toro
Assistant Director and Division Chief,
Revenue Administration I
Asia and the Pacific, Middle East and Central Asia, and Europe
jtoro@imf.org

Victoria Perry
Assistant Director and Division Chief,
Tax Policy
vperry@imf.org

Matt Davies
Division Chief,
Resource and Information Management
mdavies@imf.org

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by Ambrogio Lorenzetti

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Fiscal Affairs Department

International Monetary Fund
700 19th Street, NW
Washington DC 20431