

*Ministerio de Hacienda*  
*Despacho del Ministro*  
*San José, Costa Rica*

October 30, 2013

Sanjeev Gupta  
Director  
Fiscal Affairs Department  
International Monetary Fund

Dear Mr. Gupta

Improving fiscal transparency has been a priority of the Costa Rican authorities over the last few years. Since 2010, Costa Rica has signed 15 tax information exchange agreements, and has strengthened its fiscal transparency practices with the approval by Congress of a law that provides access to taxpayers' financial information. Also, Costa Rica was the first country in the Central American region to ratify the Multilateral Convention for Mutual Administrative Assistance on Fiscal Matters made available by OECD, a multilateral agreement on tax information exchange including more than 40 countries.

In 2013 participated in a pilot program for the application of a new methodology under IMF's Report on the Observance of Standards and Codes (ROSC) in the area of Fiscal Transparency. This report assesses progress and provides recommendations on three main dimensions of fiscal transparency: fiscal reporting, fiscal forecasting and budgeting, and fiscal risk analysis and management. At the same time that the report identifies the strengths in Costa Rica's fiscal transparency practices, it also makes reference to weaknesses and provides recommendations to address them.

In response to these recommendations, the Ministry of Finance has prepared an action plan that addresses most of the recommendations provided in this report over a period of 5 to 8 years. The main elements of this action plan include:

- a) Adopting international accounting standards as well as GFSM 2001, initially at Central Government level, and progressively extending them to the rest of the public sector over the next eight years. The action plan also includes the development of a single database that centralizes all fiscal statistics and ensures consistency between different data sources, and the preparation of

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- intra-annual budget reports that includes revision to end-of-year outlooks for the Central Government.
- b) Improving the medium-term budgetary framework and debt sustainability analysis in terms of stating medium-term numerical targets, explaining changes to the forecasts, and establishing direct links between the National Development Plan's programs and the budget.
  - c) Strengthening the analysis and reporting on fiscal risks, including information on public debt, public corporations, debt guarantees, contingent liabilities, concession contracts, natural disasters, financial institutions, municipal governments, and social security and health.

We look forward to continued collaboration with the IMF in further strengthening Costa Rica's fiscal transparency practices.

*Best Regards!  
Edgar*

Sincerely,

*Edgar Ayales*

Edgar Ayales  
Minister of Finance



Costa Rica - Ministry of Finance: Action Plan to Implement the Recommendations to Improve the Information on Fiscal Transparency and Fiscal Risk Analysis

Recomendación	Action Plan and recommended activities					Deadline
	2014	2015	2016	2017	2018	
<p>Complete the implementation of the international public sector accounting standards for the public sector, ensuring that accounting and budgetary classifications are harmonized.</p>	<p>Modify the accounting standards and regulations to be in line with the international accounting standards. Start recording the expenses and revenues in accordance with the accrual basis.</p> <p><b>Responsible Units:</b> DGCN, DGI, DGA, TN, DCP, and DGPN</p>	<p>Continue changing accounting rules and regulations to conform to international standards</p> <p><b>Responsible Units:</b> CN</p> <p>Complete recording of expenditures in accordance with the accrual basis.</p> <p><b>Responsible Units:</b> DCP and CN</p> <p>Complete recording of revenues according to the accrual basis (tax settlement and recognition of the tax return)</p> <p><b>Responsible Units:</b> DGI, DGA, TN and CN</p> <p>Complete first phase of recording assets and liabilities: Recording of intangible assets and fixed assets and financial liabilities to the entire public sector.</p> <p><b>Responsible Units:</b> DCP and DGCN</p>	<p>Make provisions for the main fiscal risks.</p> <p><b>Responsible Units:</b> DCP and DGPN</p>	<p>Value all fixed assets, including infrastructure.</p> <p><b>Responsible Unit:</b> CN</p>	<p>Consolidate the financial statements of the public sector.</p> <p><b>Responsible Unit:</b> CN</p>	2021
	<p>Harmonize the classification of accounts with the IMF GFSM 2001.</p> <p><b>Responsible Units:</b> CN</p>					
<p>Reconcile fiscal reports and produce timely audit reports to ensure the reliability of the information.</p>	<p>The first step towards the government financial statistics (GFS) according to the IMF GFSM 2001, reconciled with the financial statements, is to: (i) start the project with the change of monthly GFS of the Budgetary Central Government to GFSM 2001 framework; (ii) create a single database of GFS under the GFSM 2001 methodology; (a) identify a project leader for the creation of a single database of GFS under GFSM 2001 methodology; (b) start the database with the monthly GFS data already recomputed; c) implement a comprehensive training on GFSM 2001 and the single database to all staff involved in the provision of information; provide technical training on GFSM 2001 for officials that compile GFS data.</p> <p><b>Responsible Units:</b> STAP, DGPN, DGI, and TN.</p>					
	<p>Second stage to develop fiscal statistics according to the IMF GFSM 2001 reconciled with the financial statements, is to: (i) move GFS to the GFSM 2001 framework; a) complete change of GFS of Budgetary Central Government to GFSM 2001 framework; b) extend the process to the Central Government, General Government, Non-Financial Public Sector, and the entire Public Sector; (ii) improve the consistency between alternative sources; (iii) dissemination; improve dissemination of GFS inside and outside of the MOF. As soon as the unique database is established: a) designing access to these statistics in an automated manner and in real time within the MOF; b) update the Website for the dissemination of GFS.</p> <p><b>Responsible Units:</b> STAP, DGPN, DGI, and TN</p>					
<p>Coordination with the Comptroller General of the Republic (CGR) to the provision of adequate information on the new methodology for the preparation of audit reports by the CGR.</p>						

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Action Plan and recommended activities						Deadline
Recomendación	2014	2015	2016	2017	2018	2021
<p>Prepare budget reports with analysis of situation and outlooks by the end of the year for the public sector, with the following periodicity: (i) approved budget report by the end of January; (ii) quarterly execution report by 30 days after the end of the quarter; and (iii) annual consolidated execution report by April 1 of the following year.</p>	<p>Present individual annual budget execution reports of each of the Budgetary Central Government units not later than March 1. (The Comptroller General's Office (CGR) is responsible, by law, to prepare reports on budgetary execution of the rest of the public sector, so that the reports out of the Central Government are outside the scope of this action plan of the Executive). <u>Responsible Unit: DGPIN</u></p>	<p>Prepare quarterly budget execution reports of the Budgetary Central Government within 30 days after the end of the quarter. <u>Responsible Units: STAP and DGPIN</u></p>				2015
<p>In the medium-term budgetary framework (MTBF) document, the government should summarize macroeconomic and fiscal developments since the last budget and a revised macroeconomic and fiscal framework for the year in progress over the medium term. The MTBF should accurately state the numerical targets for the main fiscal aggregates over time and the medium term.</p>	<p>Strengthen macroeconomic analysis through coordination with BCCR on changes in macroeconomic assumptions and their impact on the fiscal projections. This analysis should be published in the MTBF presented with the National Budget. The Ministry of Finance will be responsible, based on macroeconomic projections, for making fiscal projections. <u>Responsible Unit: DGPIN</u></p>	<p>Define general fiscal policy guidelines that allow the stability of public finances in the medium and long term. <u>Responsible Units: DGPIN and Cabinet of the Minister of Finance</u></p>	<p>Include information in the MTBF on the sectoral ministries for the medium term. <u>Responsible Units: DGPIN</u></p>	<p>Include in the MTBF information on programs for the medium term. Include operational and maintenance costs of investment projects in the multi-year projections. <u>Responsible Units: DGPIN</u></p>		2018
<p>Establish direct linkage between the National Development Plan's programs and the budget. Adjustments include: standardization of concepts, programmatic structures, and performance indicators; identification of priority programs; improved performance evaluations to measure the results of policies.</p>	<p>Review current methodology continuing the improvements undertaken in the pilot plan. Reflect on the annual budget and MTBF the priorities of public investments established in the investment system. <u>Responsible Units: MIDEPLAN and DGPIN</u></p>	<p>Expand the methodology and make adjustments in the programs of other four ministries. Start performance evaluations of five programs. <u>Responsible Unit: DGPIN</u></p>	<p>Gradually expand the coverage of the programs to complete the review of all the programs. Continue the evaluation of the programs. <u>Responsible Units: DGPIN and MIDEPLAN</u></p>			2016
<p>In the report on the Situation of the Debt, the analysis of debt trends should be expanded by describing multiple scenarios for evaluating the main fiscal aggregates and including social security with a minimum of ten years and publish debt information on the consolidated public sector.</p>	<p>Publish the consolidated public sector debt. In the annual budget define and publish public debt strategy, which should include alternative scenarios. <u>Responsible Units: DCP and DGPIN</u></p>	<p>Prepare multiple scenarios and analyze the debt dynamics in the debt report. <u>Responsible Units: DGPIN and DCP</u></p>	<p>Expand the fiscal projections to 10 years and include social security. <u>Responsible Units: DGPIN and DCP</u></p>	<p>Expand the fiscal projections to 20 years. <u>Responsible Units: DGPIN and DCP</u></p>	<p>Expand the fiscal projections to 30 years. <u>Responsible Units: DGPIN, DCP</u></p>	2018

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Recomendación	Action Plan and recommended activities					Deadline
	2014	2015	2016	2017	2018	
<p>Prepare an annual document reporting on fiscal risks as part of the budget documents. This document should contain information on macroeconomic risks, public debt, public corporations, debt guarantees, contingent liabilities, concession contracts, natural disasters, financial institutions, municipal governments, and social security and health.</p>	<p>Define the unit in the MCF that will be responsible for the preparation of the risk assessment. Define the structure of a fiscal risk report, identify the units responsible for the preparation of information, and prepare a pilot report to assess the methodology and consistency of the information. <b>Responsible Unit: The Cabinet of the Minister of Finance will define the responsible units</b></p>	<p>Publish the first fiscal risk report that includes macrofiscal risks, and risks related to public enterprises and the financial sector. Define policies to mitigate those risks.</p>	<p>Include in the fiscal risk report information on public private partnership contracts, subnational governments, and debt guarantees.</p>	<p>Include in the fiscal risk report information on contingent liabilities such as pension funds and judicial demands.</p>		2017

Obs: CN= Contabilidad Nacional; DGT= Dirección General de Tributación; DGA= Dirección General de Aduanas; TN= Tesorería Nacional; DCP= Dirección de Crédito Público; DGPN= Dirección General de Presupuesto Nacional; STAP= Secretaría Técnica de la Autoridad Presupuestaria.