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S t u d i e s & A n a l y s e s

C e n t r u m A n a l i z
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C e n t e r f o r S o c i a l
a n d E c o n o m i c R e s e a r c h

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Fiscal Transparency in Transition Economies

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Abstract

Fiscal transparency became a topic of lively public and academic debate in the aftermath of the Mexican and Asian financial crises. The concept of fiscal transparency is, however, largely of a qualitative nature and is therefore something of a challenge to measure. This paper proposes an index of fiscal transparency that comprises various aspects of fiscal policy formulation, such as medium-term budgeting and analysis, accounting and data quality, off-budgetary activity, intergovernmental relations and auditing. The index is compiled for twenty seven transition economies and is based on a detailed analysis of the actual information disclosed. Analysis of the fiscal transparency index shows a clear pattern indicating that CEE countries stand out from the other two groups across all categories. This seems to be the result of the anchoring of the New Member States in the EU's structures and procedures. SEE countries are behind the first group, experiencing serious difficulties in budgetary process and reporting standards. The CIS countries still have a long way to go to meet international standards. They must enhance budgetary practices and accounting procedures, as they lag behind the above groups most clearly in this regard.

1. Introduction

Fiscal transparency is highly valued by international organisations such as the IMF and OECD, which in recent years have published Codes of Good Practices on Fiscal Transparency (IMF, 1998) and Best Practices for Budget Transparency (OECD, 2000). The guidelines included in both were applied in the aftermath of the Mexican and Asian crises and it is widely believed that lack of transparency was among the causes of the crises. Greater fiscal transparency has been advised by these institutions to many countries, including transition economies, as a precondition for fiscal sustainability and good governance. However, since many of these countries are subject to fiscal constraints imposed by the IMF or EU institutions, some have sought to pursue creative accounting practices. Easterly (1999) discusses various cases of EU countries preparing for the adoption of the euro that have undertaken what he refers to as "illusory adjustment" to meet the Maastricht criteria, while Guerrero and Hofbauer (2001) analyse fiscal transparency performance in Latin America.

The main objective of this paper is to provide measures and assessment of fiscal policy transparency in transition economies. We analyse a group of twenty seven countries, comprising Central and Eastern Europe (CEE), South Eastern Europe (SEE) and the Commonwealth of Independent States (CIS). Although this group is non-homogenous, there are a number of common features. All countries are in transition from the central planning system to the market economy and have been subject to intensive structural reforms. Market economy institutions, including fiscal authorities, are either newly established or have been substantially reorganised after the collapse of the previous economic system. Our contribution to the literature involves a comprehensive index of fiscal transparency and assessment of fiscal transparency in transition economies. To our knowledge this is the first study of this kind.

2. Theoretical background

Fiscal transparency can be defined as public openness about the structure and functions of government, fiscal policy intentions, public sector accounts and fiscal projections (Kopits and Craig, 1998). Such openness is essential if discipline is to be imposed on governments by making policymakers accountable for the design and implementation of fiscal policy. Transparency should then lead to better, more credible policies, to a less uncertain policy environment, to earlier and smoother fiscal policy responses to emerging economic problems and ultimately to improved economic performance (Kopits and Craig, 1998).

2.1 Importance of fiscal transparency

A high degree of fiscal transparency tends to provide benefits in terms of fiscal discipline and accountability. Lack of transparency is widely recognised in the literature related to the impact of budget institutions on fiscal performance as a key reason for procedural difficulties (Alesina et al., 1999). This is also confirmed in studies by Alesina, Mare and Perotti (1996) on Italy and by Tanzi (1995) on OECD countries. If governments are more transparent with respect to their fiscal accounts and intentions their access to the international capital markets can be expected to be greater and, in turn, costs related to debt servicing lower (Petrie, 2003). The political economy literature suggests that fiscal transparency makes fiscal policy more accountable (Hemming and Kell, 2001). This is because when politicians are subject to certain constraints they are obliged to set targets more carefully than otherwise in order not to deviate significantly from them. Other benefits are related to the reduction of uncertainty over fiscal policy as well as earlier and smoother fiscal policy responses to any shocks hitting economies (Petrie, 2003). Kopits and Szekely (2002) and Feldman and Watson (2002) claim that the adoption of a medium-term budget framework by EU accession countries, which is a crucial element of transparency procedures, would encourage very important structural reforms related to EU accession.

2.2 Survey of existing studies

There is extensive literature about the theoretical models on the political and institutional aspects of fiscal policy. The framework they tend to deploy encompasses the interaction between the political and economic dimensions of fiscal policy and can be seen as an attempt to combine the two into a single explanatory framework (Alesina and Perotti, 1995). Apart from economic variables, such as average growth and initial level of debt affecting fiscal performance, politically motivated variables such as political polarisation, government structure and electoral systems, are also included (Persson and Tabellini, 2000).

The theoretical literature on the implications of fiscal transparency is not large, however. Much is associated with the asymmetric information models of fiscal policy developed by Rogoff (1990) and contributions made by Easterly (1999), who adapts the Ramsey-Cass-Koopmans model to analyse the consequences of creative accounting practices related to the Maastricht Treaty. In a similar spirit to Easterly's approach, Milesi-Ferretti (2004) proposes a model in which the impact of fiscal transparency on government debt is considered, allowing for creative accounting practices under a fiscal policy rules regime. The author concludes that transparency determines the scope for creative accounting, as opposed to real fiscal adjustment, emphasising the role of fiscal rules in this context.

There is also a line of research linking fiscal transparency to political economy models. Shi and Svensson (2002) present a political agency model in which politicians attempt to appear competent by issuing debt and thus providing more public goods. This, of course, merely postpones payment to future periods. In the model the degree of fiscal or budget transparency determines when and how far voters can observe debt and thus the extent to which an incumbent can use debt to appear competent. Alt and Lassen (2005) extend this model to include political parties with preferences over public spending. The first outcome suggests that transparency diminishes debt accumulation partly due to the electoral cycle, which is consistent with Shi and Svensson's model. Alt and Lassen also find that increasing political polarisation tends to increase debt accumulation (Alesina and Tabellini, 1990) and their findings confirm the model proposed by Persson and Svensson (1989), which suggests that right-of-centre governments tend to have higher deficits than do left-of-centre governments. An interesting approach is developed by Ferejohn (1999), who examines an agency model in which transparency affects voter trust in government and thus the size of government. The common feature of all approaches is that transparency is associated with higher probability and accuracy of observations of incumbents' performance.

3. Empirical evidence

The empirical research on fiscal transparency is also limited. Alesina and Perotti (1996) note that "the results on transparency probably say more about the difficulty of measuring it than about its effect on fiscal discipline". This is reiterated by Alesina and Perotti (1999) and subsequently by Tanzi and Schuknecht (2000).

One strand of empirical literature has constructed an index measuring different dimensions of fiscal transparency. Von Hagen (1992) compiles a transparency index for eight European countries that includes measures of the following: whether the countries have special funds, whether budgets are submitted in a single document, an assessment of transparency by respondents, whether there is a link to national accounts and whether loans to non-governmental entities are included. This index is partially updated by de Haan et al. (1999). Guerrero et al. (2001) provide an index of budget transparency for five Latin American countries:

Argentina, Brazil, Chile, Mexico, and Peru. The index measures, in a comparable form, the degree of accessibility and utility of information issued by national governments with respect to finances, revenues and expenditures. The authors find that all the analysed countries lack budget transparency and the index covers values between 3.7 and 5.9 on a scale with the maximum score 10. This is complemented by a detailed analysis of the legal framework of each of the countries' budgetary processes undertaken by a group of experts. A more descriptive approach is employed by Allan and Perry (2003), who analyse fiscal transparency in EU Accession Countries. They use the IMF's Reports on Standards and Codes (ROSC) to assess the current stance in relation to fiscal transparency in these economies. The paper highlights four areas that should be enhanced in terms of budgetary practices. Primarily, medium-term budgetary frameworks that can help to increase fiscal policy credibility need to be established, they argue. The other areas include comprehensive coverage of extra-budgetary activities in conjunction with strengthening and modernising government accounting and reporting systems. There is also a need to develop uniform reporting standards for the broadly defined general government as well as improve the management capacity of sub-national levels of government.

4. Fiscal transparency in transition economies

In our paper we aim to provide measures for and an assessment of fiscal transparency in transition economies. We analyse a group of twenty seven transition economies. The group consists of Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Georgia, Hungary, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Macedonia, Moldova, Poland, Romania, Russia, Serbia and Montenegro, Slovakia, Slovenia, Tajikistan, Turkmenistan, Ukraine, Uzbekistan. Although this group is non-homogenous there are a number of common features. All countries are in transition from the central planning system to the market economy and are subject to intensive structural reforms. Market economy institutions, including fiscal authorities, are either newly established or have been substantially reorganised after the collapse of the previous economic system.

4.1 Fiscal transparency index

Although we construct an index of fiscal transparency based on a questionnaire broadly following the IMF's Reports on Standards and Codes, the assessment of fiscal transparency has been made fully independently of the IMF's ROSCs. We collect all the relevant official documents concerning budgetary process and fiscal policy formulation from the relevant websites in order to compile a fiscal transparency index. The languages of official documentation that are a basis for assigning scores are English and Russian. The latter can be taken as a common language for all the CIS countries. The cut-off point of the assessment is June 2005. The detailed questionnaire is provided in Appendix 1.

The index is similar in spirit to that adopted by Alt and Lassen (2005), who use the OECD Best Practices for Budget Transparency (OECD, 2001) for OECD countries. The reason why we broadly follow the IMF guidelines for constructing our questionnaire is that the OECD Best Practices cover the activities related to the central government and budgetary sector, and not encompassing all fiscal activities. This is particularly important when analysing transition economies, where the role of off-budgetary funds and the generally poor quality of data are quite common. ROSCs are more comprehensive and cover four broad areas of fiscal transparency. We extend the IMF's ROSCs with a fifth area that emphasises the role of auditing in the budgetary process and the relative importance of the Ministry of Finance over spending ministries.

The first area is medium-term budgeting and analysis, encompassing elements focused on establishing medium-term budget frameworks. A realistic annual budget is an effective tool of fiscal management, but it requires high quality revenues and expenditures forecasts. Realistic revenue forecasts are particularly crucial because relatively small deviations can result in significant budget deficit misalignments. This is due to the fact that expenditures are to a large extent difficult to adjust when revenues unexpectedly decrease. The annual budget should include forward year estimates, with the first out-year estimate being a starting point for budget negotiations for the following year. Forward year estimates allow an assessment of the impact of revenues and expenditures, assuming incumbent government policies are maintained, as well as providing the basis for greater accountability. Budget documents should include medium-term objectives because they put fiscal policy in a broader macroeconomic policy context, linking the budget to broadly defined public sector objectives. It is highly advisable to design fiscal policy in such a way that medium-term estimates actually guide annual budget submissions. New and ongoing policy costs should be distinguished from the costs associated with current programmes in the budget. This allows clear identification of factors potentially rendering deviations from targets, thus improving accountability for fiscal policy implementation. The analysis of fiscal sustainability is an integrated part of the medium-term budgeting framework, as it provides a financial constraint for public policy formulation. Outlining long-term risks helps provide some account of uncertainty related to budget estimates.

The second area is concerned with accounting and data quality and consists of two elements regarding consistency with international accounting and reporting standards as well as inclusion of extra-budgetary funds. Although there is no internationally accepted standard for government accounting and reporting it is highly advisable for governments to comply with Government Finance Statistics (GFS) and/or European System of Accounts (ESA). Both of these set out financial reporting standards ensuring consistency for the analysis, evaluation and monitoring of a country's fiscal performance. Budgetary documentation should encompass all fiscal activities, including the activities both of extra-budgetary funds and autonomous agencies. The latter are often set up as separate legal entities to provide public services such as health and education or to pursue regulatory functions.

The third group is related to extra-budgetary fiscal operations, including contingent liabilities, quasi-fiscal operations and the availability of data on tax expenditures. Contingent liabilities can be defined as costs the government will have to incur contingent on the occurrence of uncertain future events. A common example of contingent liabilities is a loan guaranteed by the government. The contingent liability becomes an actual liability in the event of borrower's default. Tax expenditures are exemptions from the tax base, allowances deducted from gross income, tax credits deducted from tax liability, tax rate reductions and tax rate deferrals. The effects of tax expenditures are often very similar to the effects of explicit expenditure programmes. One example is concessionary tax treatment of families, individuals or firms. It is crucial that tax expenditures are not subject to formal annual approval by the legislature, which reduces fiscal transparency substantially. Quasi-fiscal operations can be defined as activities conducted by public sector institutions or non-financial public enterprises that are not recorded in budgetary reporting. An example may be a multiple exchange rate system, charging less than the commercial process or credit ceilings. The implications are a distorted picture of the fiscal stance and creation of implicit contingent liabilities.

The fourth dimension of fiscal transparency is associated with intergovernmental relations encompassing limits or controls on local government debt and borrowing, as well as uniform classification for the general government. One of the ways through which fiscal discipline can be achieved at the local government level is imposing restrictions on local government debt. It is, however, important to ensure co-operation between central and local governments because if local government runs deficits higher than planned in the budgetary documents central government must then compensate for this deviation by reducing its own deficit. The latter may lead to important policy goals being missed. The uniform classification for the general government should be applied to ensure reconciliation of the financial operations of the budget and budget organisations. In the absence of such uniform classification, the consolidation of general government accounts is very difficult, which may lead to serious fiscal mismanagement.

We extend the IMF's approach with a fifth area that emphasises the role of auditing in the budgetary process and the relative importance of the Ministry of Finance over spending ministries. An external audit is a vital tool for ensuring public accountability. It includes attestation of the financial accountability of the government, encompassing auditing of financial systems and transactions and evaluation of compliance with regulations and statutes. The relative importance of the Ministry of Finance over spending ministries helps clarify and speed up the budgetary process.

4.2 Assessment of fiscal transparency stance

4.2.1 The medium-term budgetary framework

Not many countries provide a realistic account of annual budgets, which is reflected in often substantial deviations between actual execution and targets. Among the CEE countries, Hungary, Poland and Slovenia stand out from the others in providing full accounts of discrepancies within a small range. Estonia, Lithuania and Slovakia receive half a point each, as the deviations are more substantial and limited backdated information is provided. The rest of the countries from this group get no points. The SEE economies perform worse than the latter of the above group, with only three countries revealing information. Bulgaria and Macedonia are assigned full scores, while the score for Albania is reduced because the account is incomplete. The CIS countries disclose very little information with respect to this criterion. There are only four countries in the group that reveal some limited information i.e. Armenia, Kyrgyzstan, Moldova and Russia. They get half a point each since accounts tend to be rather vague.

It is important that budgetary documents include forward year estimates, and this good practice is generally followed by all the countries. In the CEE group all the countries' budgetary documents include forward year estimates, the only exception being the Czech Republic, which provides incomplete information, therefore lowering its score. The SEE countries also in principle comply with this criterion. The annual budget documents in Croatia contain limited information, therefore half a point is assigned, while Serbia and Montenegro does not provide medium-term forecasts, receiving no points. Mixed results are noted in the case of the CIS countries, where only Georgia, Kazakhstan, Kyrgyzstan, and Moldova get full scores. Some limited information is disclosed by Armenia, Belarus, Russia and Uzbekistan.

The next element is whether budget documents include medium-term objectives. Both the CEE and SEE countries make this information generally available, although few countries receive a reduced score. Poland, Bulgaria, Macedonia and Serbia and Montenegro have vaguely stated objectives, while there is no information regarding objectives for Croatia. The CIS countries lag far behind both groups, with the exception of Armenia and Moldova. The rest disclose either limited information or no information at all.

Only the Czech Republic and Hungary of the CEE countries publish information in their budgetary documents on new and ongoing policy costs. The rest score half a point because only limited accounts are available and Poland receives no points. The situation is even worse in the SEE and CIS countries, which apart from a few cases do not reveal any information regarding ongoing policy costs. On the whole, the results show that the general public does not have wide access to such information, which might be due to lack of a clear strategy, in conjunction with various temptations to hide ongoing costs.

A crucial element of the medium-term budgetary framework is that medium-term estimates guide annual budget submissions. This improves the predictability of the budgetary process as well as ensures consistency in fiscal policy over the medium-term. Although progress has been made in recent years, few countries design their annual budgets based on medium-term estimates. It has been implemented in more advanced economies such as the Czech Republic, Latvia, and Slovenia, which get full scores. Others from the CEE still do not base their annual budgets on the medium-term framework and the medium-term perspective is therefore not actively used in constructing annual budgets. The SEE countries do not generally perform well, with the only two countries that link their annual budgets to the medium-term perspective being Albania and Bosnia and Herzegovina. The rest get no points. A slightly better situation is seen in the CIS countries, where Kazakhstan and Kyrgyzstan tie their annual budgets into a medium-term framework. Although Armenia, Georgia, Moldova and Russia include forward year estimates to budget documents, these estimates are only to a certain extent a basis for annual budget formulation. The other, less advanced, transition economies receive no points.

Almost all the CEE countries give an extensive account on fiscal sustainability and long-term risks. Lithuania and Latvia provide only vague analysis on these points and therefore score only half a point each. Among the SEE countries, Croatia stands out, while Bulgaria and Serbia and Montenegro do not assess fiscal sustainability and long-term risks in detail. The CIS countries do not give detailed accounts, though Georgia, Kazakhstan and Kyrgyzstan discuss these issues to a certain extent.

4.2.2 Accounting and data quality

An important element of transparency is including extra-budgetary funds in overall budget accounts. Estonia, Hungary, Slovakia and Slovenia fully implement this practice, while the Czech Republic, Lithuania and Poland conform only partially. Problematic issues remain privatisation proceeds and autonomous agencies that carry out non-commercial activities. The situation in the SEE countries is worse, although one should note that all of have made significant progress in recent years. Apart from model-solutions in Bulgaria and Macedonia the rest still face the problem of a number of funds remaining outside the budget decision-making process. The CIS countries have recently started adjusting their budget accounts to include extra-budgetary funds and as such still lag behind more advanced transition economies. The only exceptions are Belarus and Moldova, which appear to take extra-budgetary funds fully into account.

Another transparency objective is sound accounting systems consistent with the European System of Accounts (ESA 95) and the IMF Government Finance Statistics Manual (GFSM 2001). All CEE countries comply with this standard, but the Czech Republic and Poland get reduced scores. The former follows the international reporting standards, but the delay in revealing this is quite substantial: they become available after 18 months. The latter still lacks some consistency with ESA standards. Only Bulgaria and Croatia among the SEE countries have accounting practices fully consistent with international standards. Although the budget in Albania includes a GFS86-based functional classification at the main category levels, as well as a broad-based object classification, the central government budget appropriation structure is unduly limited. Macedonia generally meets most international standards in terms of macroeconomic statistics, with the exception of coverage of government finance statistics not extending to comprehensive central and general government data. In the group of CIS countries, Belarus surprisingly stands out from the rest. The other three, which have made some efforts to make their government statistics comparable with international reporting standards, are Kazakhstan, Moldova and Russia. Kazakhstan broadly covers the scope of the general government sector, but there are still some extra-budgetary funds and grants that do not fully conform with international standards. Russia does not give an explicit definition of the general government sector and the definition is blurred by a significant level of entrepreneurial activities carried out by budgetary organisations.

4.2.3 Off-budgetary fiscal activity

Contingent liabilities are predominantly reported in the budgets of CEE countries, although the extent to which this information is revealed varies. Hungary, Latvia and Poland perform well, while the Czech Republic, Estonia, Lithuania and Slovakia still have some deficiencies. More specifically, while they report data on contingent liabilities, they do not take into account possible costs associated with court decisions and other prospective costs. The SEE countries do not disclose data on contingent liabilities in full, with the exception of Serbia and Montenegro. Macedonia and Romania get half a point each because they do not specify contingent liabilities in their budgetary documents, whereas Croatia publishes data on contingent liabilities in the Ministry of Finance's Monthly Statistical Review. Although this is not an official budgetary document, we assign a reduced score because this document is publicly available. The CIS countries have not yet started reporting contingent liabilities and the only three countries provide some limited data: Kazakhstan, Moldova, and Russia.

The CEE countries are not advanced in reducing quasi-fiscal activities. Neither the Czech Republic nor Lithuania provide any data on these operations, whereas the rest report only limited information. Furthermore, the data does not cover the full range of subsidies, tax expenditures or quasi-fiscal activities carried out by the government nor are they linked to the budget. The other two groups are very little advanced, with only Bulgaria, Moldova and Serbia and Montenegro having made some efforts to account for this.

None of the groups of countries report data on tax expenditures to any great extent. Of the CEE countries, only Estonia, Hungary and Latvia provide limited information, so receive half a point each. Serbia and Montenegro is the only country from the SEE block that publishes some information, while Ukraine and Uzbekistan stand out from the others a little in the CIS group. On the whole, this area needs serious improvements across all the transition economies.

4.2.4 Intergovernmental relations

This is of great importance in clearly defining relations among different levels of government, including reporting practices at the sub-national level. An important element of this strategy is to impose limits or controls on local government debt and borrowing. The CEE countries have progressed with respect to this criterion, although some countries have still to improve their performance. The situation is slightly less favourable in the SEE countries, where only Albania, Croatia and Macedonia have advanced such procedures substantially. Neither Romania nor Serbia and Montenegro have fully binding constraints on local government debt and are therefore assigned half a point each. The CIS countries are still at the beginning of the process and the only two that have managed to establish good practices are Azerbaijan and Moldova. Armenia, Kyrgyzstan and Ukraine get half a point, as they have built in some mechanisms constraining local government debt and borrowing.

Uniform classification for general government has been widely employed in the CEE countries. The Czech Republic provides relatively detailed information on the breakdown but the issue of municipalities is not clearly stated. Latvia does not include in its definition of general government state-owned enterprises. Both countries receive half a point. The SEE countries lag behind, but many still have limited uniform classification for general governments. Bulgaria is the only country that has not implemented any reform in unifying its classification. Although this practice is not very common for the CIS countries, some countries such as Armenia, Azerbaijan, Kyrgyzstan,Moldova and Russia, have managed to introduce uniform classification successfully, receiving full scores. Belarus has a clearly defined general government, but some extra-budgetary funds are not consolidated with the general government. In Georgia the problem is that some non-profit institutions are excluded from the general government definition, while Kazakhstan is advised to make some clarifications on regional equity. Uzbekistan excludes from its definition of general government state-owned enterprises. All the above countries get half a point each.

4.2.5 Audits and the position of the MoF

All the CEE countries have already established an independent budget audit, while only Bosnia and Herzegovina and Serbia and Montenegro have not in the group of SEE countries. Although an independent audit is not very common in CIS countries there are still quite a number of countries that have given independence to this institution. The situation is less favourable in Kazakhstan and Kyrgyzstan, where the institution of external audit has been established but is not entirely independent.

The relative importance of the MoF over spending ministries is important for the purpose of efficiency and transparency in the budgetary process. The CEE countries have, in principle at least, a clear situation in this respect, whereas only Bulgaria, Croatia and Romania among the SEE countries give some priorities to the MoF. The practice is still underdeveloped in the CIS countries, with the exception of Moldova and Russia.

4.2.6 Summary

There is a clear pattern of CEE countries standing out from the other two groups significantly across all the broad categories. This seems to be a result of anchoring EU New Member States in the mechanisms governing the European Union. The accession countries were obliged to produce Pre-accession Programmes that were subsequently followed by Convergence Programmes. According to our assessment, the Czech Republic and Poland are the least transparent economies in this group, while Hungary and Slovenia appear to be leaders in this respect. The former have problems with accounting and data quality. More specifically, Poland has hardly implemented a medium-term budgetary framework, whereas the Czech Republic has some irregularities in terms of off-budgetary fiscal activities and intergovernmental relations.

The SEE countries lag behind the first group, experiencing serious difficulties in budgetary process and reporting standards. The leaders here are Bulgaria, Croatia and Macedonia. The main problem in this group is that a medium-term budgetary framework has not been advanced and there are severe irregularities in terms of extra-budgetary fiscal activities. It is surprising that Romania is not in the leading position here, given that it will probably be admitted to the European Union in the near future.

The CIS countries still have a long way to go to meet international standards. They must enhance budgetary practices and accounting procedures, as they clearly lag the above groups. Problems are identified in all the areas, signalling the need to undertake far-reaching reforms. Surprisingly, Moldova appears to be comparable to the CEE group. One also has to note that Russia, Kazakhstan and Kyrgyzstan have reached a similar stage as the SEE leaders. All the scores are presented in Appendix 2.

5. Conclusions

This paper presents an index of fiscal transparency that comprises aspects of fiscal policy formulation such as medium-term budgeting and analysis, accounting and data quality, extra-budgetary activity, intergovernmental relations and audits. Analysis of the results based on the index shows wide variations among the analysed groups. There is a clear pattern indicating that CEE countries stand out from the other two groups significantly across all the broad categories. This seems to be a result of anchoring the New Member States in the mechanisms governing the EU. The accession countries were obliged to produce Pre-accession Programmes, which were subsequently followed by Convergence Programmes. The SEE countries are behind the first group, experiencing serious difficulties in budgetary processes and reporting standards. The CIS countries still have a long way to go to meet international standards. They must enhance budgetary practices and accounting procedures as they clearly lag behind the above groups in particular here.

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Appendix 1

I. Medium-term Budgeting and Analysis

1. realistic annual budget

Have deviations from the target exceeded +/- 15 percent during the last 5 years?

within the target +/- 15 percent - 1

deviations larger +/- 15 but smaller than +/- 30 percent - 0.5

deviations larger than +/- 30 percent - 0

2. budget documents include forward year estimates

Do budget documents include forward year estimates with an at least 3 year perspective?

3 years perspective - 1

less than 3 years perspective - 0

3. budget documents include medium-term objectives

Is the medium-term budgetary framework part of the annual budget documentation?

yes -1

no - 0

4. new and ongoing policy costs are distinguished in the budget

Are new and ongoing policy costs distinguished in the budget?

yes - 1

unsatisfactorily - 0.5

no - 0

5. medium term estimates guide annual budget submissions

Do medium term estimates guide annual budget submissions?

yes - 1

unsatisfactorily - 0.5

no - 0

6. analysis of fiscal sustainability/long term risks

Is there any analysis of fiscal sustainability/long term risks?

yes - 1

unsatisfactory - 0.5

no - 0

II. Accounting and Data Quality

1. budget coverage: inclusion of extra-budgetary funds

yes - 1

unsatisfactorily - 0.5

no - 0

2. budget/accounts broadly consistent with ESA95 and/or GFSM2001

Are budget accounts broadly consistent with ESA95 and/or GFSM2001?

yes - 1

unsatisfactorily - 0.5

no - 0

III. Off-budget fiscal activity

1. contingent liabilities are reported in the budget

Are contingent liabilities reported in the budget?

yes - 1

unsatisfactorily - 0.5

no -- 0

2. quasi fiscal operations are limited

Are quasi fiscal operations limited?

yes - 1

unsatisfactorily - 0.5

no -- 0

3. data on tax expenditures is published

Is data on tax expenditures published?

yes - 1

unsatisfactorily - 0.5

no -- 0

IV. Intergovernmental relations

1. limits or controls on local government debt and borrowing

Are there any limits or controls on local government debt and borrowing?

yes - 1

no - 0

2. uniform classification for the general government

Is there uniform classification for the general government?

yes - 1

unsatisfactory - 0.5

no - 0

V. Audit and the position of MoF

1. independent audit of the budget

Is there an independent audit of the budget?

yes - 1

unsatisfactory - 0.5

no - 0

2. the relative importance of MoF over spending ministries in the budgetary process

What is the relative importance of MoF over spending ministries in the budgetary process?

yes - 1

unsatisfactory - 0.5

no - 0

Appendix 2	1. Medium-term budgeting and analysis	a) Realistic annual budget	b) Budget documents include forward year estimate	c) Budget documents include medium-term objectives	d) New and ongoing policy costs are distinguished in the budget	e) Medium-term estimates guide annual budget submissions	f) Analysis of fiscal sustainability/long-term risks	2. Accounting and data quality	a) Budget coverage: inclusion of extra-budgetary funds	b) Budget/accounts broadly consistent with GFS	3. Extra-budgetary fiscal activity	a) Contingent liabilities are reported in the budget	b) Quasi-fiscal activities are limited	c) Data on tax expenditures is published	4. Intergovernmental relations	a) Limits or controls on local government debt and borrowing	b) Uniform classification for the general government	5. Auditing and the position of MoF	a) independent audit of the budget	b) the relative importance of MoF over spending ministries in the budgetary process	SUM
CEE																					
Czech Republic	4.5	0	0.5	1	1	1	1	1	0.5	0.5	0.5	0.5	0	0	1	0.5	0.5	2	1	1	9
Estonia	4.5	0.5	1	1	0.5	0.5	1	2	1	1	1.5	0.5	0.5	0.5	1.5	0.5	1	2	1	1	11.5
Hungary	5.5	1	1	1	1	0.5	1	2	1	1	2	1	0.5	0.5	1.5	0.5	1	2	1	1	13
Latvia	4	0	1	1	0.5	1	0.5	1	0	1	2	1	0.5	0.5	1.5	1	0.5	2	1	1	10.5
Lithuania	4	0.5	1	1	0.5	0.5	0.5	1.5	0.5	1	0.5	0.5	0	0	2	1	1	2	1	1	10
Poland	3.5	1	1	0.5	0	0	1	1	0.5	0.5	1.5	1	0.5	0	1.5	0.5	1	2	1	1	9.5
Slovak Rebublic	4.5	0.5	1	1	0.5	0.5	1	2	1	1	1	0.5	0.5	0	1.5	0.5	1	2	1	1	11
Slovenia	5.5	1	1	1	0.5	1	1	2	1	1	1.5	1	0.5	0	2	1	1	2	1	1	13
SEE																					
Albania	3.5	0.5	1	1	0.5	0.5	0	1	0.5	0.5	0	0	0	0	1.5	1	0.5	1	1	0	7
Bosnia and Herzegovina	2.5	0	1	1	0	0.5	0	0.5	0.5	0	0	0	0	0	1	0	1	0	0	0	4
Bulgaria	3	1	1	0.5	0	0	0.5	2	1	1	0.5	0	0.5	0	0	0	0	2	1	1	7.5
Croatia	2	0	0.5	0	0.5	0	1	1.5	0.5	1	0.5	0.5	0	0	1.5	1	0.5	2	1	1	7.5
Macedonia	3	1	1	0.5	0.5	0	0	1.5	1	0.5	0.5	0.5	0	0	1.5	1	0.5	1	1	0	7.5
Romania	2	0	1	1	0	0	0	0.5	0.5	0	0.5	0.5	0	0	1	0.5	0.5	2	1	1	6
Serbia and Montenegro	1	0	0	0.5	0	0	0.5	0.5	0.5	0	2	1	0.5	0.5	1	0.5	0.5	0	0	0	4.5
CIS																					
Armenia	3	0.5	0.5	1	0.5	0.5	0	0	0	0	0	0	0	0	1.5	0.5	1	1	1	0	5.5
Azerbaijan	0	0	0	0	0	0	0	0.5	0.5	0	0	0	0	0	2	1	1	1	1	0	3.5
Belarus	0.5	0	0.5	0	0	0	0	2	1	1	0	0	0	0	0.5	0	0.5	0	0	0	3
Georgia	2.5	0	1	0.5	0	0.5	0.5	0	0	0	0	0	0	0	0.5	0	0.5	1	1	0	4
Kazakhstan	3.5	0	1	0.5	0.5	1	0.5	1	0.5	0.5	0.5	0.5	0	0	0.5	0	0.5	0.5	0.5	0	6
Kyrgyz Republic	3.5	0.5	1	0.5	0	1	0.5	0.5	0.5	0	0	0	0	0	1.5	0.5	1	0.5	0.5	0	6
Moldova	3.5	0.5	1	1	0.5	0.5	0	1.5	1	0.5	1	0.5	0.5	0	1.5	1	0.5	2	1	1	9.5
Russia	2	0.5	0.5	0.5	0	0.5	0	1	0.5	0.5	0.5	0.5	0	0	2	1	1	2	1	1	7.5
Tajikistan	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Turkmenistan	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Ukraine	0	0	0	0	0	0	0	0.5	0.5	0	0.5	0	0	0.5	0.5	0.5	0	1	1	0	2.5
Uzbekistan	1	0	0.5	0.5	0	0	0	0.5	0.5	0	0.5	0	0	0.5	0.5	0	0.5	0	0	0	2.5