Improving Fiscal Transparency to Raise Government Efficiency and Reduce Corruption Vulnerabilities in Central, Eastern, and Southeastern Europe

Bernardin Akitoby, Larry Cui, Sílvia Domit, Jingzhou Meng, Slavi Slavov, Nujin Suphaphiphat, and Hanqi Zhang

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Governments have responded to the unprecedented COVID-19 pandemic by providing rapid and exceptional financing. How can they ensure that the massive resources unleashed in such a short period are efficiently used to protect lives and livelihoods? The paper answers this question by arguing that transparency can improve government efficiency and reduce corruption vulnerabilities—even more so in this time of crisis. To this end, fiscal costs and risks should be transparently assessed and disclosed, and risk management tools put in place.

Focusing on Central, Eastern, and Southeastern Europe, the paper offers insights on how to strengthen the analysis and management of fiscal risks at a time when such risks have sharply increased, in order to ensure transparency, accountability, and good governance.

The analysis was undertaken in the context of the 2018 Framework for Enhanced IMF Engagement in Governance, which supports more systematic, candid, and even-handed engagement with member countries on governance.

See this factsheet for more on how the IMF promotes transparent and accountable use of COVID-19 financial assistance.

Disclaimer:
This document was prepared before COVID-19 became a global pandemic and resulted in unprecedented economic strains. It, therefore, does not reflect the implications of these developments and related policy priorities. We direct you to the IMF Covid-19 page that includes staff recommendations with regard to the COVID-19 global outbreak.
Improving Fiscal Transparency to Raise Government Efficiency and Reduce Corruption Vulnerabilities in Central, Eastern, and Southeastern Europe

Prepared by an IMF team composed of Bernardin Akitoby, Larry Cui, Sílvia Domit, Jingzhou Meng, Slavi Slavov, Nujin Suphaphiphat, and Hanqi Zhang
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Executive Summary

This departmental paper investigates how countries in Central, Eastern, and Southeastern Europe (CESEE) can improve fiscal transparency, thereby raising government efficiency and reducing corruption vulnerabilities. Research has shown that fiscal transparency is critical to effective fiscal management and accountability, which in turn reduces opportunities for corruption and raises the political costs of unsustainable policies. In recent years, lack of fiscal transparency has contributed to periods of macroeconomic stress and sovereign debt crises in European countries.

Available IMF Fiscal Transparency Evaluations suggest that CESEE countries face particular challenges under the pillar of the IMF Fiscal Transparency Code dealing with fiscal risk analysis and management. These countries face significant risks related to public investment, subnational governments, public guarantees, and state-owned enterprises (SOEs). In all these areas, fiscal risks have increased, following the forceful public policy response to the COVID-19 pandemic.

To enhance transparency, CESEE countries need a more comprehensive fiscal risk management toolkit. Currently, fiscal risk management tools tend to rely on blunt, direct controls that may not be sustainable or efficient over the medium to long term. The fiscal risk management toolkit, therefore, needs to be broadened to include indirect tools (regulations and charges) as well as risk transfer instruments. To this end, the main policy priorities are as follows:

• Public investment management: cost-benefit analyses for major projects should be published, and open and competitive tenders for procurement should be established for SOEs and local governments.
• Subnational governments: the degree of their financial autonomy should be linked to their performance, as recommended in IMF (2016b). The central government should be granted the authority to liquidate assets and appoint administrators.

• Government guarantees: the central government should implement risk-related charges and/or require collateral to align incentives. Establishing buffer funds and applying fiscal risk analysis will also help mitigate risks stemming from guarantees.

• State-Owned Enterprises: professional SOE management and independent boards should become the norm. Targets for operational performance should be set and consolidated SOE reports published. Moreover, noncommercial mandates need to be restricted, and explicit limits on budget/SOE interactions established.

Given the significant risks uncovered in this study, a risk-based approach to fiscal policy is desirable. This approach should start with the identification, quantification, and full disclosure of fiscal risks, including by publishing regular fiscal risk statements. Countries could also benefit from IMF assistance in this regard, such as Fiscal Transparency Evaluations and Public Investment Management Assessments. Implementing the recommendations may also require changes to existing legislation. In addition, for the most important sources of risks, macro-fiscal sensitivity analyses should be undertaken to help policymakers understand the effects of shocks to fiscal targets. Establishing fiscal councils could also play a useful role in mitigating fiscal risks.

The ongoing COVID-19 pandemic has raised both the importance and urgency of improving fiscal transparency in CESEE. Governments in the region have appropriately rushed to respond to the public health emergency and provide lifelines to households and companies. This has been accompanied by a rapid scaling-up of fiscal support, both on- and off-budget. Fiscal risks have increased, including because many CESEE countries have boosted health-related public investment, in some countries subnational governments are responsible for public health spending and unemployment benefits, public guarantees have been ramped up, and the financial health of many SOEs has rapidly deteriorated. This departmental paper offers insights on how to strengthen the analysis and management of fiscal risks in CESEE at a time when those have sharply increased, in order to ensure transparency, accountability, and good governance.
The role of fiscal transparency has become central in IMF surveillance since the wave of crises that struck emerging market economies in the late 1990s, and the ongoing COVID-19 pandemic has raised both the importance and urgency of strengthening fiscal transparency. In a seminal paper, Kopits and Craig (1998) define fiscal transparency as “openness toward the public at large about government structure and functions, fiscal policy intentions, public sector accounts, and projections.” The IMF Fiscal Transparency Code sets standards for international good practices in this area. The benefits of fiscal transparency have been known at least since the times of Aristotle who noted in his book *Politics*: “to protect the Treasury from being defrauded, let all money be issued openly in front of the whole city, and let copies of the accounts be deposited in various wards.” As noted by Kopits and Craig (1998), nontransparent fiscal practices tend to create a range of allocative distortions in public finances. Examples include inefficient tax expenditures, the accumulation of arrears and contingent liabilities, misallocation of public procurement (particularly in the area of public investment), and quasi-fiscal activities that avoid legislative scrutiny.

Fiscal transparency promotes fiscal accountability by enabling the public and the markets to evaluate and discipline governments. It raises the political costs of unsustainable policies. As noted by Sedmihradská and Haas (2013), budget openness reduces “fiscal illusion,” that is, the overstatement of the benefits and understatement of the costs and risks of various government programs. Fiscal transparency decreases the informational asymmetry between politicians (especially incumbents) and voters, and, therefore, it improves accountability, reduces the political business cycle, and increases political competition. It strengthens the enforcement of fiscal rules, by making their circumvention more difficult. Fiscal transparency also improves market access and reduces borrowing costs.
Fiscal transparency can deter illicit behavior.¹ As the saying goes, sunlight is the best disinfectant. For instance, transparent and competitive public procurement practices have helped reduce corruption vulnerabilities. There is a strong perceived link between corruption and public expenditure transparency and accountability. A recent survey in the European Union shows that 33 percent of respondents see lack of transparency and accountability for public expenditure as one of the top three causes of corruption (Bondarenko, Gudkov, and Krasilnikova 2013).

This paper examines how fiscal transparency can help improve government efficiency and reduce corruption vulnerabilities in CESEE. The analysis is undertaken in the context of the 2018 Framework for Enhanced IMF Engagement in Governance, which supports more systematic, candid, and even-handed engagement with member countries on governance. This study seeks to help to better integrate IMF work on improving fiscal transparency and governance into surveillance work for CESEE countries.

The ongoing COVID-19 pandemic has raised both the importance and urgency of improving fiscal transparency in CESEE. Governments in the region have been forceful in responding to the public health emergency and providing lifelines to households and companies. This has been accompanied by a rapid scaling-up of fiscal measures, both on- and off-budget. Budgetary measures have included tax measures, additional spending (for health services and unemployment benefits), as well capital grants and targeted transfers (for example, wage subsidies or direct transfers). Off-budget measures have included the creation of extrabudgetary funds, government guarantees to banks, firms, or households, as well as quasi-fiscal operations through the central bank, national development banks, state-owned banks, and other SOEs. According to IMF (2020), at the global level, spending and revenue measures amount to $3.3 trillion, loans and equity injections total $1.8 trillion, while guarantees and other contingent liabilities add up to $2.7 trillion. Combining these with the revenue shortfalls due to the global recession, global public debt is projected to increase by 13 percent of GDP in 2020, with public debt in Emerging Europe also expected to increase by 7 percent.

Given the extraordinary scale and speed of ongoing interventions, fiscal risks in CESEE countries have inevitably increased. This is particularly the case for off-budget fiscal measures, because they typically do not add to recorded fiscal deficits and are not subject to the same scrutiny as on-budget measures. In addition, the liabilities they create are often not immediately visible but are either delayed in time or contingent. Even when a rapid response to the public health emergency is the top priority, governments still need to manage the associated fiscal risks and follow principles of good governance.

¹See IMF (2016a).
commensurate with the scale of interventions. That should include accurate accounting, timely and complete disclosure of information, and the adoption of procedures for ex post evaluation and accountability.

The remainder of this paper is organized as follows: Chapter 2 reviews cross-country evidence from European countries on how fiscal transparency improves government efficiency and reduces corruption vulnerabilities. Chapter 3 discusses the findings of a survey of CESEE country authorities on fiscal transparency. It also draws lessons from case studies and best practices. Chapter 4 reviews the role played by the IMF in strengthening fiscal transparency in Europe. Chapter 5 offers policy recommendations and proposes a practical approach for integrating this study’s findings into surveillance and capacity building.
The IMF’s Fiscal Transparency Evaluations (FTEs) offer a comprehensive assessment of a country’s budget openness, with a focus on the information needed for good fiscal management. The IMF has published FTEs for 28 countries worldwide, including 12 European countries.¹ FTEs offer an in-depth assessment of each country’s fiscal transparency practices according to 36 criteria, grouped into three main pillars (Figure 1).² Pillar 1 focuses on fiscal reporting: its coverage, frequency, timelines, quality, and integrity. Pillar 2 looks at the comprehensiveness, orderliness, policy orientation, and credibility of fiscal forecasting and budgeting. Finally, Pillar 3 focuses on the analysis and management of fiscal risks and considers the frameworks for risk disclosure and analysis (including long-term sustainability analysis), management of risks (including those related to guarantees, public private partnerships, and financial sector exposures), and fiscal coordination (regarding risks related to subnational governments and public corporations).

How Can Lack of Transparency Create Macroeconomic Instability?

Weak fiscal transparency standards can exacerbate the macro-fiscal consequences of fiscal risks and could lead to severe fiscal stress. IMF (2016b) conducted a comprehensive survey of fiscal risks, looking at sources of shocks to government debt in 80 countries during 1990–2014. It found that costs of government rescues of troubled financial institutions have averaged about 10 percent of GDP, while government compensation for legal cases could cost about 8 percent of GDP on average and 15 percent of GDP in the most extreme cases. Subnational governments are another significant source of fiscal risks, with their rescues costing 4 percent of GDP on average, and

¹Published FTEs are available at https://www.imf.org/external/np/fad/trans/.
²A fourth pillar was recently introduced, covering transparency in managing natural resource revenues.
12 percent of GDP in extremis. Similarly, government bailouts of troubled state-owned enterprises (SOEs) cost 3 percent of GDP on average and 15 percent of GDP in the most extreme cases.

Recent history reveals shortcomings in fiscal transparency in European countries, at times contributing to periods of macroeconomic stress:

- Looking at the period 1993–2003, Koen and van den Noord (2005) identify many transactions involving off-balance-sheet assets in European countries that reduced reported fiscal deficits but did not improve public finances in a broader sense.
- Alt, Lassen, and Wehner (2014) illustrate how incentives for using fiscal policy for electoral purposes—combined with limited budget transparency at the national level and the need to comply with Economic and Monetary Union fiscal rules—encouraged the employment of fiscal gimmicks and creative accounting.
- According to IMF (2013), for the 10 countries with the largest unexpected debt increases after the global financial crisis, about a quarter of the increase was caused by deficient fiscal reporting and more than a third by underestimated fiscal risks from macroeconomic shocks and contingent liabilities.³

³The 10 countries are France, Germany, Greece, Iceland, Ireland, the Netherlands, Portugal, Spain, the United Kingdom, and the United States.
• In Greece, transparency shortcomings in in-year fiscal reporting triggered substantial revisions to initial estimates of the general government debt and deficit. These large ex post revisions contributed to a full-blown sovereign debt crisis.

• Prudent management of fiscal risks from financial sector exposures requires awareness of implicit guarantees to the private sector, particularly where financial sector oversight is weak and/or too-big-to-fail concerns apply to the banking sector. In Ireland and Iceland, large bank rescues following the 2008–09 global financial crisis caused sharp increases in public debt of 41 and 43 percentage points of GDP, respectively. These two cases illustrate that even levels of debt well below what was considered prudent before the crisis may not be “safe” in the face of large contingent liabilities (IMF 2013).

• In Portugal, the general government debt shot up by about 15 percentage points in the aftermath of the global financial crisis, due to reclassifications of SOEs, calls on guarantees related to public-private partnerships (PPPs), and financial sector interventions, as a result of inadequate disclosure and management of fiscal risks from contingent liabilities (IMF 2013; Blanchard, Dell’Ariccia, and Mauro 2013).

• In Albania, a new government came to power in 2013 and quickly uncovered about 5 percent of GDP in central government arrears, as well as large amounts of unbudgeted infrastructure contracts. To forestall a crisis of confidence, given also the high level of public debt and large refinancing needs, the government negotiated an IMF program in 2014 and completed an IMF Fiscal Transparency Evaluation in 2015.4

• In Montenegro, inadequate analysis and management of the fiscal risks related to a large highway construction project have weighed heavily on public finances. IMF (2019f) notes that phase one of the Bar-Boljare highway project, already costly at 23 percent of 2014 GDP, saw a further cost increase owing to the lack of a hedge on the USD loan that served as the primary funding source for the project. Completion of phases 2–4 of the project could cost another 25 percent of GDP, representing an additional risk to public finances, even if completed through a PPP structure. The significant fiscal impact of the highway points to the importance of strengthening the frameworks for analyzing and managing fiscal risks related to public investment and PPPs.

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4IMF (2017a).
What Do the Data Tell Us About Fiscal Transparency, Government Efficiency, and Corruption in Europe?

Cross-country evidence suggests that fiscal transparency is highly correlated with better economic and financial outcomes in European countries. Notably, fiscal transparency correlates with improved market access, lower financing costs, better efficiency of public investment and revenue collection, and improved corruption perceptions. These findings are consistent with de Renzio and Wehner (2017) which offers a comprehensive survey of the literature on the impact of fiscal openness, including experimental designs, natural experiments, and regression analysis. The three subsections that follow introduce the measures of fiscal transparency used in this paper, offer correlation analysis, and explore the impact of fiscal transparency on corruption perceptions using a global panel.

Introduction to the Data

According to IMF’s Fiscal Transparency Evaluations (Figure 2), Western European countries (in red) tend to rank better than CESEE countries (in purple) on average. This illustrates the strong correlation between budget openness and income. FTEs focus on de facto practices and cover the entire public sector (including local governments and SOEs). Their downside is the small country coverage and the lack of time-series variation, resulting in small sample sizes. Note also that Figure 2 offers an unweighted average over the 36 FTE criteria for each country. However, some of these criteria are more macro-critical than others.

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5The rest of the figures in this chapter follow the same color convention.
6In 2019, Russia became the first country to complete an FTE Update. See Box 7 for a summary of its findings.
The Open Budget Survey provides another data source on budgetary transparency. The Open Budget Survey is a set of third-party indicators compiled by the International Budget Partnership, a US-based non-governmental organization established in 1997. It focuses on those aspects of fiscal transparency that matter most for public accountability, such as the public availability of budget information, opportunities for the public to participate in the budget process, and the role and effectiveness of formal oversight institutions. The survey is based on a survey of 145 questions assessed by experts, and it covers 115 countries dating back to 2006. Thus, its main upside is its broad coverage and time-series variation. It also has certain shortcomings: it focuses on central governments only, so it ignores subnational governments and public corporations. Some of the survey questions focus on de jure aspects of fiscal transparency whose relation to de facto budget openness is likely to be imperfect. The survey mostly assesses the comprehensiveness and timely availability of budget information, but not its credibility.

The Open Budget Index (OBI) is correlated with income, as well as with FTE ratings. In Figure 3, the left corner is once again dominated by Western European countries, while the right tail consists mostly of CESEE countries. The OBI is highly correlated with FTE ratings, with a correlation coefficient of about 0.8 for the seven European countries covered by both (Figure 4), suggesting that both indices provide similar signals. Given the FTE’s granularity, comprehensiveness, and focus on de facto practices, the section that follows (Correlation Analysis) uses it as the main data source to uncover correlations between fiscal transparency and better outcomes. The next sub

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7 Many of the questions are drawn from the IMF’s Code of Good Practices on Fiscal Transparency, the Public Expenditure and Finance Accountability (PEFA) initiative, the OECD’s Best Practices for Fiscal Transparency, and the International Organization of Supreme Audit Institutions’ Lima Declaration of Guidelines on Auditing Precepts. In addition, governments are also invited to review and comment on draft replies to the questionnaire.
section (Econometric Analysis), where cross-section and time-series variation are important, uses the Open Budget Survey instead. Finally, Figure 5 shows the change in the Open Budget Index for 22 European countries between 2010 and 2017.8

**Correlation Analysis**

More fiscal transparency is correlated with improved market access in Europe. A better FTE rating is correlated with a better credit rating9 and lower spreads on credit default swaps (CDS), and thus lower financing costs for governments (Figures 6 and 7). The variables in Figures 6–12 are income-adjusted, that is, these are the residuals after regressing each variable on the natural log of real per capita GDP (adjusted for purchasing power parity). This addresses the potential criticism that fiscal transparency and the variable on the vertical axis are both driven by income levels. Even after the impact of income is filtered out, the correlation survives. These and subse-

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8To deal with structural breaks due to methodological changes over time, Figure 5 subtracts the cross-country averages from the 2010 and 2017 scores, before taking their difference. Conceptually, this is similar to introducing time-fixed effects.

9Sovereign credit ratings were converted into numerical scores using the methodology used in Keita, Leon, and Lima (2019). A higher credit rating corresponds to a lower numerical score.
quent scatterplots only establish statistical correlation rather than a causal relationship. Nevertheless, it is intuitively plausible that more transparent public finances increase confidence among financial market participants. The correlations in Figures 6 and 7 are consistent with the findings in more comprehensive studies. For example, Choi and Hashimoto (2017) use an event study of 52 emerging market economies to show that data transparency policy reforms, such as subscribing to the IMF Data Standards Initiatives, reduce the spreads of emerging market sovereign bonds by about 15 percent within one year. Similarly, Kemoe and Zhan (2018) analyze a global panel of 33 emerging market and developing economies during 2005–16 and find that higher fiscal transparency reduces sovereign interest rate spreads and increases foreign holdings of sovereign debt. Finally, Keita, Leon, and Lima (2019) use granular information from 173 Public Expenditure and Financial Accountability (PEFA) assessments for 89 emerging market and developing economies between 2005 and 2016 and find that access to market-based external finance is positively correlated with the transparency of public finances.

Better FTE ratings are also correlated with better fiscal outcomes (Figures 8 and 9). Fiscal transparency was found to be negatively correlated with public debt, although the correlation is relatively weak. Lower fiscal transparency is also correlated with larger fiscal “slippages,” defined as primary fiscal balances
falling short of World Economic Outlook projections. This is unsurprising, given the FTE’s focus on budget openness and good fiscal management.

Fiscal transparency is positively correlated with the efficiency of public investment (Figure 10). This is an intuitively plausible finding since fiscal transparency is known to reduce “fiscal illusion,” that is, the overstatement of the benefits and understatement of the costs and risks of various government programs, a problem particularly pronounced in public investment (Sedmihradska and Haas 2013). In addition, Fiscal Transparency Evaluations directly assess each country’s frameworks for analyzing and managing fiscal risks, including those related to the vehicles through which much of public investment is channeled: PPPs, local governments, and public corporations. The measure of public investment efficiency used here comes from the IMF Investment and Capital Stock Dataset and quantifies the efficiency with which public investment (the input) in a country is transformed into physical and social infrastructure (the output, as measured by the length of the country’s road network, electricity production, access to water, the number of hospital beds, and the number of secondary teachers). For each country, public investment efficiency is measured relative to the most efficient country with a similar level of per capita income. The measure considers per capita income because it determines access to technology as well as the initial capital stock.
Fiscal transparency is positively correlated with revenue efficiency (Figure 11). This might be because it boosts tax compliance, by strengthening the perceived link between paying taxes and better public goods (Kelmanson and others 2019). In addition, Fiscal Transparency Evaluations directly assess the coverage of tax expenditures in fiscal reporting. The measure of revenue efficiency presented here is the average of two measures: personal income tax (PIT) efficiency (defined as the ratio of actual PIT collection as percent of GDP to the average statutory PIT rate) and VAT C-efficiency (the ratio of actual VAT revenue as percent of GDP to the product of the standard VAT rate with aggregate final consumption as percent of GDP). Intuitively, both measures estimate how much a country collects from PIT and VAT, relative to a hypothetical maximum.

Fiscal transparency is negatively correlated with control of corruption (Figure 12). The Control of Corruption Index comes from the Worldwide Governance Indicators (WGI), a set of third-party indicators compiled by Daniel Kaufmann (Brookings Institution and the Natural Resource Governance Institute) and Aart Kraay (World Bank). The index aggregates 30 different data sources on both perceptions of and experiences with corruption by business executives, households, and experts. A higher value for the index indicates better control of corruption. The statistical relationship between
fiscal transparency and corruption perceptions is robust to other measures of corruption, including the Corruption Index by the International Crisis Risk Group and the Corruption Perceptions Index by Transparency International (which uses a subset of the information used by the WGI).\(^\text{10}\)

It is important to flag the well-known issues with perception-based measures of corruption. They don’t measure actual corruption, and they are highly persistent over time. However, the Control of Corruption Index covers surveys of experiences of corruption, in addition to corruption perceptions, which reduces somewhat the scope for bias. Furthermore, perceptions (whether justified or not) are an important driver of investment decisions. Still, perceptions-based indicators should be interpreted with caution, given the possibility for subjectivity and bias, the standardized assumptions, and the underlying uncertainty around point estimates. It is also important to emphasize once again that scatterplots like the ones presented above only establish statistical correlations rather than causal relationships. While the statistical correlation between fiscal transparency and better outcomes appears to be broad and robust, omitted variables or reverse causality cannot be ruled out.

### Econometric Analysis

To investigate further the impact of fiscal transparency on corruption perceptions and mitigate against omitted variables, panel regressions were undertaken (Table 1). The data cover 102 countries worldwide for 6 specific years: 2006, 2008, 2010, 2012, 2015, and 2017. The dependent variable in all regressions is the Control of Corruption Index from Worldwide Governance Indicators, while fiscal transparency is measured by the Open Budget Index from the International Budget Partnership (both discussed above). Additional controls include GDP per capita (adjusted for purchasing power parity), voice and accountability, political stability and absence of violence, rule of law (all from the WGI), and ease of doing business (from the World Bank’s

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\(^{10}\) These results are not presented here but are available upon request.
### Table 1. Regression Results on the Impact of Budget Openness on Control of Corruption

<table>
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<tr>
<td>Log per capita GDP (PPP-adjusted)</td>
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<td>Political stability and absence of violence</td>
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<td>395</td>
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<tr>
<td>R-squared</td>
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<td>0.415</td>
<td>0.464</td>
<td>0.517</td>
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<td>0.502</td>
<td>0.703</td>
<td>0.421</td>
<td>0.472</td>
<td>0.402</td>
<td>0.482</td>
<td>0.601</td>
<td>0.789</td>
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<tr>
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<td>102</td>
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<td>102</td>
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</tr>
</tbody>
</table>

Source: Authors’ estimates.

Note: Robust standard errors in parentheses.

*** p < 0.01, ** p < 0.05, * p < 0.1
Doing Business Survey). A dummy variable for commodity exporters, as defined by the IMF *World Economic Outlook* for emerging market and developing economies (EMDEs), is also included, to reflect the hypothesis that higher economic rents associated with natural resource wealth create opportunities for corruption in countries with weaker institutions, consistent with the findings in Leite and Weidmann (2002). All regression equations were estimated with two estimators: fixed and random effects. Fixed effects are a superior estimator when there are likely to be omitted variables, while random effects are preferable if there is little variation over time. All regression equations include time-fixed effects to take care of potential structural breaks in the series (for example, due to changes in methodology).

The coefficients on the Open Budget Index and all other independent variables show the expected signs and are almost always statistically significant. The results from both parsimonious and comprehensive specifications of the regression equation show that control of corruption is positively associated with per capita income, voice and accountability, political stability and absence of violence, rule of law, and ease of doing business. Control of corruption is negatively associated with being an EMDE commodity exporter. Table 1 also shows a fairly robust link between fiscal transparency and control of corruption, even after conditioning for multiple other drivers of corruption perceptions. Taking the most comprehensive regression specifications in the last two columns of Table 1, they both suggest that improving a country’s Open Budget Index by one standard deviation (or 24 units) would increase the Control of Corruption Index (whose standard deviation is about 0.86) by about 0.05. Similar results are reported in Haque and Neanidis (2009) for a cross section of 59 countries in 2006, in Luna and Montes (2017) for a panel of 82 countries during 2006–14, and in IMF (2019a) for a global cross section of countries.

While regressions analysis can mitigate the risk of omitted variables, it leaves the issue of causality unresolved. Fully disentangling all the causal links among corruption, institutions, and economic development may not be feasible. Nevertheless, the results presented here are consistent with the set of experimental designs and natural experiments reviewed in IMF (2019a), all showing that improved budget openness can increase government efficiency and reduce opportunities for corruption, especially when combined with a high degree of press freedom and wide access to digital technologies.
Fiscal transparency challenges in CESEE countries appear to be concentrated in risk analysis and management. The IMF Fiscal Transparency Code identifies three main transparency pillars: (1) fiscal reporting, (2) fiscal forecasting and budgeting, and (3) fiscal risk analysis and management, with the last one introduced in response to lessons from the global financial crisis (IMF 2018). Fiscal Transparency Evaluations (FTEs) have been conducted for 6 out of 22 CESEE countries and show that, on average, the rating for fiscal risk analysis and management is the lowest amongst the three pillars (Figure 13).

This chapter focuses on a survey of fiscal risk analysis and management practices in CESEE. Given the limited coverage of available FTEs, a survey of CESEE country authorities was conducted to help assess their current policy practices on fiscal risk analysis and management. Drawing on the IMF Fiscal Transparency Code and inputs from IMF Fiscal Affairs Department staff, the survey was conducted in the spring of 2019. It included 21 questions on the analysis and management of fiscal risks related to public investment management, subnational governments, government guarantees, and SOEs. It also requested quantitative information to help assess the size of related fiscal risks. For each topic, country practices were rated according to the share of good practices in place as reported by country authorities. Whereas the survey allows for a comprehensive cross-country comparison, an important distinction between the survey and the FTEs is that while the former is based on a self-assessment by country authorities, the latter provide assessments by IMF experts of the effectiveness of existing frameworks and practices. Survey

1In January 2019, a fourth pillar was introduced to assess transparency in resource revenue management, but available FTEs pre-date this addition.

2Fiscal reporting and fiscal forecasting and budgeting are essential for improving fiscal risk analysis and management. Thus, some survey questions also touched upon reporting and budgeting practices.

3Important sources of fiscal risks not covered by the survey include PPPs, long-term sustainability risks (including those related to pension funds), financial sector exposures, and environmental risks.
responses were complemented with additional information. We have relied on assessments by IMF country teams and have flagged the cases where there is a notable discrepancy between self-assessment by country authorities and the assessment of IMF country teams. Furthermore, the analysis on SOEs drew extensively on IMF (2019b). See Box 1 and Annex 1 for more information about the survey.

Fiscal risks from public investment, government guarantees, and SOEs in CESEE could be large. Survey results indicate that, on average, CESEE countries have a stock of government guarantees and SOE debt of about 3.2 and 4.8 percent of GDP, respectively, while public investment accounts for about 5.5 percent of GDP (Figure 14). Risks could be even larger in cases where these factors are interlinked, such as when SOEs or subnational governments execute capital spending, or when public investment is carried out through PPPs which typically involve public guarantees.

CESEE country authorities reported better analysis and management of fiscal risks from guarantees than from subnational governments or public investment (Figure 15). Aggregate survey responses on the management of fiscal risks from public investment, subnational governments, government guarantees, and SOEs varied significantly across countries and subregions (Figure 16). To allow for comparability across topics and sources, the data were normalized by the inverse of their cross-section standard deviation.  

Survey responses, including on SOEs, were arranged into three sub-regional

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4Scores for public investment management, guarantees, and subnational governments are based on the survey conducted for this study, while scores for SOEs come from IMF (2019b).
groups: the European Union’s new member states (NMS), 5 Western Balkan countries, 6 and the Commonwealth of Independent States (CIS) + Turkey. 7 Among these, NMS reported better practices, on average, followed by CIS+Turkey and Western Balkan countries. Latvia and Romania were the countries that reported applying the largest share of best practices. While several factors likely explain the varying performances, the adoption of EU-wide standards and regulations might have helped NMS countries. In addition, better-performing countries such as Albania and Kosovo have benefited extensively from IMF technical assistance and IMF-supported financial arrangements.

The text that follows analyzes survey results by topic. Discussion begins with survey results on the analysis and management of fiscal risks related to public investment management. Then the focus moves to subnational governments, shifts to government guarantees, and goes on to discusses the analysis and management of fiscal risks related to SOEs. Throughout the text, several case studies are included to highlight best practices and remaining challenges. Following the forceful public policy response to the COVID-19 pandemic, fiscal risks in all these areas have increased, and the text below discusses the implications for policy.

5Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, and Slovenia.
6Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, and Serbia.
7Belarus, Moldova, Russia, Turkey, and Ukraine.
Box 1. Introduction to the Survey

The survey used 21 yes/no questions to capture current practices related to the analysis and management of fiscal risks in CESEE countries. That included four questions on public investment management, ten questions on the risk management of government guarantees, six on the risk management of subnational governments, and one question on SOEs.

Survey responses were grouped into qualitative rating categories. For each topic, countries that reported applying more than 80 percent of the good practices covered in the survey received an “Advanced” rating, those that fulfilled 50–80 and 15–50 percent of those criteria were characterized as having “Good” and “Basic” practices, respectively, with the remainder grouped into “Not met.”

Public Investment Management

Transparent public investment management can boost efficiency. Public investment supports the provision of key public services and is an important driver of growth. A more transparent process increases the efficiency of public investment as higher scrutiny helps ensure that investments are well-planned, allocations are in line with the country’s developmental priorities, and project implementation is on time and on budget. Box 2 presents an example of good public investment management practices.

Transparency is particularly critical at the project appraisal, planning, and implementation stages. Guided by the IMF’s Fiscal Transparency Code and Public Investment Management Assessment Framework, the principles include:

- **Project appraisal:** cost-benefit analysis for major projects should be published. To prioritize resource allocation across various investment projects, methods for project evaluation should be set. In particular, for major projects, a well-designed cost-benefit analysis (CBA) should be undertaken and published before the approval of the project. The government should provide clear guidelines and a standardized methodology for the CBA.

- **Project planning:** financial commitments under multi-annual investment projects should be published. Although most major investments projects involve multiple years of disbursements, budget appropriation typically takes place annually. As a result, it is important to ensure that key stakeholders are fully informed of the expected full cost of the project, the
Public investment expenditure in Finland is above the EU average (Box Figure 2.1), and spending quality and efficiency are high. After the global financial crisis, Finland has spent, on average, 4 percent of GDP on public investment annually. About half of the total investment spending has been undertaken by local governments and it has increased over time. According to the 2019 Global Competitiveness Report, the quality and efficiency of overall infrastructure is relatively high, notably in utility infrastructure.

Finland has a strong institutional framework for public investment. According to the Global Competitiveness Indices, Finland has consistently been a top performer among surveyed countries worldwide in overall quality of institutions and public sector performance, including transparency, corporate governance, burden of government regulation, and efficiency of the legal framework in setting disputes. For public investment projects, Finland has good disclosure of information related to planning, appraising, and implementing investment projects, according to the 2015 Fiscal Transparency Evaluation. In particular:

- **The government discloses total costs of all multi-annual investment projects in the annual budget.** The budget presents detailed information for each investment project, including approved total costs, dates of approval and expected completion, actual spending for the budget year, and remaining costs after the budget year. In addition, Ministry of Finance regulations require responsible ministries to prepare a payment plan for all investment projects, although the plans are not published.
- **Open and competitive tender is the default method for major public investment projects in Finland.** Finland’s public procurement procedures have been carried out according to national procurement legislation and the EU's procurement directives, which reflect core principles of transparency, equal treatment, open competition, and sound procedural management. According to the Open Tender Database, about 85 percent of all tenders in Finland were conducted via open and competitive procedures in 2016–18.

Sources: IMF (2015), and Finland’s 2020 budget document.
related financial obligations, and the medium-term fiscal implications. In addition, regular disclosures and updates should be provided to account for uncertainties and materialized risks (for instance, delays and cost overruns).

- **Project implementation: the procurement process should be open and competitive.** This should help maximize value-for-money and ensure transparency in awarding the contracts. A good procurement process includes clear written rules, consistently enforced standards, and appeal avenues for unsuccessful bidders.

Few CESEE countries reported publishing cost-benefit analyses for major projects before approval (Figures 17 and 18). Only Bosnia and Herzegovina, Bulgaria, and Latvia require publication of CBAs for major investment projects prior to approval. Bosnia and Herzegovina reported requiring the draft decision and justification for the investment project to be published for comments and suggestions. Many countries reported conducting CBAs for major projects but not always publishing the result. This was the case in Russia, Turkey, and most NMS countries, where major projects supported by the EU are required to undergo a CBA. Based on its *Guide to Cost-Benefit Analysis of Investment Projects*, the European Commission sets the principles, methods, and criteria for CBAs and the framework must be applied to all major infrastructure projects above EUR 50 million. However, the EU does not require...
CBA publication prior to approval, nor does it require conducting a CBA for domestically financed projects.

Many CESEE countries reported disclosing total government’s financial obligations under multi-annual investment projects. 12 out of 21 CESEE governments reported having a requirement to publish a project list and the total costs of public investment in their annual budgets and/or medium-term budget documents. For example, in Turkey, the authorities reported preparing on-budget capital spending plans and including a comprehensive list of investment projects allocated to ministries, agencies, local governments, SOEs, and extra-budgetary funds in the Annual Investment Program. Some countries such as North Macedonia reported providing forecasts and details...
of investment projects but not publishing the total life-cycle cost of projects or annual deviations of actual from planned costs.

All CESEE countries reported requiring open and competitive tendering for major central government investment projects. Public procurement laws in all CESEE countries were reported to require all major projects to be contracted via open and competitive tenders, in principle. Nonetheless, procurement processes can vary across countries. For example, some countries, including the Czech Republic, Poland, North Macedonia, and Russia, reported not requiring open and competitive procurement for investment projects from the nonfinancial public sector (including local governments and SOEs). In the Czech Republic, the requirement for open and competitive procurement processes reportedly only applies to EU-funded projects. In many countries, public procurement laws also include exemptions. For example, in Lithuania, the exemptions from applying open and competitive tenders include contracts related to state secrets, procurement or rental of land, existing buildings or other immovable property, and employment contracts.

Overall, there is room for improving public investment management in CESEE countries. Western Balkan reported the best practices, on average, for public investment management, followed by NMS and CIS+Turkey (Figure 19). Only two countries—Latvia and Bosnia and Herzegovina—reported public investment management practices consistent with an “Advanced”
rating. The majority of CESEE countries (including Albania, Belarus, Bulgaria, Hungary, Kosovo, Lithuania, Montenegro, Poland, Romania, and Turkey) reported fulfilling two out of three criteria, consistent with a “Good” rating. Overall, the key challenge for managing public investment in CESEE countries appears to be at the project appraisal stage, in which a cost-benefit analysis should be conducted and published. Also, actual public investment management practices might be weaker than suggested by the self-reported survey. While self-assessment by the country authorities indicated total financial obligations for investment are reported in Belarus, IMF (2019d) finds that further efforts are needed to fully report the related fiscal risks and ensure data integrity.

In the context of the COVID-19 pandemic, public investment in the health sector has increased substantially, for example, in order to upgrade and expand hospitals and testing facilities. In addition, many CESEE countries are considering plans to eventually ramp up general public investment as a way to support the recovery once social distancing measures are relaxed. To mitigate the associated fiscal risks, governments should publish all public investment contracts. If feasible, they should also rely on open and competitive bidding, and resort to emergency non-competitive procurement processes only when followed by adequate forms of control, auditing, and reporting. Governments should publish beneficial ownership information for companies that are awarded contracts, empower existing anti-monopoly agencies to monitor market conditions in critical sectors, and foster cooperation with civil society on matters related to fiscal transparency and the delivery of public goods and services. It is also important that governments implement ex ante measures (e.g., publish plans for the use of emergency funding) and commit to ex post measures (e.g., publish all information on procurement contracts and selectively audit procurement contracts once the crisis abates).

Subnational Governments

Subnational governments (SNGs) can be an important source of fiscal risks. They can raise, spend, and sometimes borrow significant resources. In some countries, off-budget activities and associated contingent liabilities of subnational governments can also be significant, either through explicit or implicit guarantees from the central government (IMF 2016b).

SNGs therefore call for enhanced fiscal risk management. A government’s ability to respond to fiscal risks partly depends on the quality of its information about the magnitude and likelihood of potential shocks. Best practices suggest that governments should collect and publish comprehensive information on the financial performance of subnational governments, individually
and as a consolidated sector. Once the key risks to public finances have been identified and analyzed, it is important to develop appropriate strategies for their management and mitigation (IMF 2016b).

The survey of CESEE countries covered key aspects of the analysis and management of fiscal risks related to subnational governments. These were quantification/identification, direct controls, indirect controls, and risk transfer:

• **Quantification**: the survey asked if the authorities (central government or parliament) monitored the financial performance of subnational governments against benchmarks such as fiscal deficit or debt targets.

• **Direct controls**: these aim to limit governments’ total exposure to risks related to subnational governments. Specifically, the survey asked whether the authorities had in place fiscal rules or quantitative limits on borrowing for subnational governments.

• **Indirect controls**: these focus on regulating the entities that are a source of risk. The survey asked country authorities whether they imposed annual reporting requirements on subnational governments and whether they linked the degree of financial autonomy of subnational governments to their performance, such that subnational governments with better performance enjoyed more fiscal autonomy and vice-versa, as recommended in IMF (2016b).

• **Risk transfer**: the survey asked if the authorities had established no-bail-out clauses for subnational governments and retained the authority to liquidate assets of subnational governments or appoint administrators for them.

Most CESEE countries reported subjecting subnational governments to quantification and direct controls (Figures 20 and 21). According to country authorities, the financial performance of subnational governments is monitored against benchmarks (eg, fiscal deficit or debt targets) in all countries except in Hungary, Moldova, Serbia, and Ukraine. Also, fiscal rules or limits on borrowing for subnational governments reportedly exist in all but two countries: Bosnia and Herzegovina and the Czech Republic. The exact format of monitoring and direct controls varies across countries. For example, Russia reported imposing limits on both debt and deficit of subnational governments and monitoring their financial performance on a weekly basis. In Lithuania, authorities reported that borrowing by municipalities is limited by law and complete information on their financial performance is monitored annually.

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8This survey focused on the financial performance of subnational governments and the analysis and management of related fiscal risks. A broader assessment of the overall performance of subnational governments could also feature functional performance criteria to evaluate the effectiveness of public goods provision.

9In the Czech Republic, although higher debt does not preclude subnational governments from new borrowing, if it exceeds 60 percent of revenues (on average in the previous four years), debt needs to be reduced by a pre-determined amount in the following year.
Indirect controls of subnational governments are less widespread. Whereas subnational governments are subject to annual reporting requirements in all CESEE countries, according to country authorities, very few have their financial autonomy linked to performance, as recommended in IMF (2016b). Amongst those who do, there is variation. For example, Estonia reported subjecting better-performing local governments to a higher debt ceiling, whereas Albania reported providing incentives through performance-based grants from the central government.

The use of risk transfer tools is also limited. Of all surveyed countries, only Slovakia reported having both risk transfer tools covered in the survey, namely no-bail-out clauses and central government authority to liquidate assets or appoint administrators of struggling subnational governments. Only five other countries reported having one of those tools.

Overall, there is room for improvement in managing fiscal risks from subnational governments in CESEE countries (Figures 22 and 23). On average, countries in the region reported applying just over half of the surveyed risk management practices, equivalent to a “Good” level of management of fiscal risks from subnational governments. The survey showed significant variation, with about half of the sample reporting “Good” practices, and the remain-

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**Figure 20. Adoption of Best Practices by Category**

Subnational Governments—Best Practice Principles Applied? (Number of countries)

<table>
<thead>
<tr>
<th>Survey questions:</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Performance benchmarking?</td>
</tr>
<tr>
<td>2. Fiscal rules?</td>
</tr>
<tr>
<td>3. Degree of financial autonomy linked to performance?</td>
</tr>
<tr>
<td>4. Annual reporting requirement?</td>
</tr>
<tr>
<td>5. Credible no-bail-out clauses?</td>
</tr>
<tr>
<td>6. Authority to liquidate assets or appoint admins?</td>
</tr>
</tbody>
</table>

Sources: Country authorities; and IMF staff calculations.

1Includes countries with unsubmitted or incomplete survey responses.
ing responses split between “Basic” and “Advanced.” Four countries were rated “Advanced,” as they reported implementing five out of the six surveyed criteria: Albania, Estonia, Russia (see Box 3), and Slovenia. Three countries received a “Basic” rating, as they reported fulfilling only two out of the six criteria: Bosnia and Herzegovina, Moldova, and Serbia.\(^\text{10}\) Overall, new EU member states in CESEE scored slightly better than CIS+Turkey or Western Balkan countries, but not enough to differentiate themselves: the three groups received the same average rating (“Good”).

The room for improvement could be larger than suggested by the survey, given that these results are based on a self-assessment by country authorities. For example, the 2018 Fiscal Transparency Evaluation for North Macedo-

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\(^{10}\) Three countries (Croatia, Latvia, and Ukraine) submitted incomplete answers and were not rated.
nia highlighted that although the financial performance of municipalities is published quarterly, information required to assess the financial position of individual municipalities is not disclosed.

The COVID-19 pandemic has increased fiscal risks related to subnational governments, including because in some CESEE countries they are responsible for public health spending and unemployment benefits. In the context of the pandemic, the recommendations above need to be balanced against the need to ensure that subnational governments remain adequately financed to deal with the public health emergency. For the duration of the COVID-19 epidemic, financing should not be the binding constraint on the provision of health care or other critical services by subnational governments. If necessary, central governments should be prepared to temporarily revise existing arrangements for intergovernmental fiscal relations, to ensure adequate financing for health care and other critical spending at the subnational level. It is also imperative to ensure closer coordination with subnational governments.

Government Guarantees

Guarantees are an important source of fiscal risk for governments. They are an attractive means of supporting businesses and households as—unlike
Russia’s subnational government sector is large. It is composed of more than 20,000 local governments (municipalities) and about 85 state (regional) governments.

Russia has advanced fiscal transparency practices for subnational governments. Both the 2014 and the 2019 IMF Fiscal Transparency Evaluations assigned an “Advanced” rating to Russia’s fiscal transparency practices for subnational governments. Russia was also rated “Advanced” in the survey of CESEE country authorities.

Fiscal reporting of subnational governments is comprehensive and standardized. Individual regional and municipal governments are required to publish financial information which follows national standards on at least an annual basis. The Ministry of Finance releases monthly and quarterly information on the debt of regional and municipal governments aggregated by region. The main in-year and annual fiscal reports cover the consolidated accounts for central, regional, and municipal governments according to uniform budget classification, chart of accounts, and reporting format. The Federal Treasury publishes monthly information on budget execution by subnational governments.

The budget process for subnational governments is comprehensively regulated. The budget code sets the rules and procedures for the preparation, approval, and execution of regional and municipal budgets, ensuring consistent classification and treatment of expenditure and revenues. The budgets of the federal government, subnational governments and extra-budgetary funds are consolidated and presented to the legislature in October of each year. The Treasury’s budget execution reports and financial statements cover most non-corporate central and subnational government entities. Budgets at the regional level cover the upcoming year and the two-year forward planning years. Budgets at the municipal level might cover the upcoming year and the two consequent years but are also allowed to cover the upcoming year only. Information on future plans is provided at the same level of detail for all years in the planning framework. In 2019, the Ministry of Finance started piloting participatory budgeting at the regional and municipal levels, which would enable citizens to propose projects for budget financing.

There are clear limits on debt and deficit of subnational governments. Debt is limited to a ceiling equal to the subnational government’s annual budget revenue, net of federal grants. Budget deficits are limited to 15 percent of revenue net of federal grants for regions and 10 percent for municipalities, while their annual borrowing is limited.

Sources: IMF (2014), IMF (2017b), and IMF (2019c).

1The federal government submits to the legislature a forecast for key general government budget indicators. Parliament approves the budget for the federal government and extra-budgetary funds, while subnational budgets are considered by sub-federal legislative bodies.
by deficit financing plus debt amortization. In addition, debt servicing costs must not exceed 15 percent of expenditures, net of those financed by subventions.\textsuperscript{2} Tougher restrictions are placed on regions and municipalities which rely more heavily on federal grants. Compliance with these limits is monitored by the Ministry of Finance and breaches can result in financial sanctions and the imposition of reforms to internal financial management practices which are evaluated on a rolling basis. Finally, a sensitivity analysis of the finances of subnational governments to macroeconomic parameters was covered in the 2015 Fiscal Risks Report.

There is room for improvement in the analysis and management of fiscal risks from subnational governments. In particular, whereas the Budget Code and fiscal rules provide robust procedures for the management of risks from subnational governments, limited information is provided on subnational ownership of public corporations and the risks around these holdings. Also, while there are controls in place to limit the value of new guarantees that can be issued by subnational governments, guarantees provided by public corporations which are not monitored or controlled by the federal government are not subject to such controls. Finally, the risk transfer toolkit can be improved. The authorities have not established a no-bail-out clause for subnational governments, and whereas an existing legal mechanism allows for their temporary financial administration, its efficacy has not been tested.

\textsuperscript{2}Subventions are earmarked, non-matching grants to finance spending responsibilities devolved from the higher-level government (federal for regional governments and regional for municipalities).

direct subsidies, grants, or lending—they are typically not included in measures of the government deficit or debt unless and until they are called. But excessive reliance on guarantees can complicate fiscal management, because they tend to be called when macroeconomic conditions and the fiscal position are already deteriorating (IMF 2018). Survey responses suggest the stock of central government guarantees is close to 3 percent of GDP on average in CESEE, and particularly large in Slovenia (14.5 percent of GDP), Hungary (8.4 percent of GDP), and North Macedonia (8.3 percent of GDP).\textsuperscript{11}

The survey of CESEE countries covered key aspects of the analysis and management of government guarantees. Drawing on international best practices (IMF 2016b), the questions covered four aspects in fiscal risk management and analysis of guarantees: (1) direct controls; (2) indirect controls; (3) risk

\textsuperscript{11}Data are for the latest year available, as reported by the authorities in the survey, usually 2017.
transfer and risk-sharing mechanisms; and (4) provisioning (see Annex 1 for further details):

- **Direct controls** include having a central registry of guarantees, publishing the stock of outstanding guarantees and details of newly issued ones, the existence of a central authorizing entity for guarantees, and legislation limiting the flow of new guarantees or their total stock.

- **Indirect controls** include the government charging risk-related fees for guarantees.

- **Risk transfer and sharing mechanisms** refer to measures that transfer some risks from the government to the recipient of a government guarantee, such as collateral requirements and partial guarantees.

- **Provisioning measures** include establishing a buffer fund and provisioning for expected guarantee calls.

Most CESEE countries reported good or advanced practices in managing fiscal risks from guarantees (Figures 24 and 25). Overall, about one-third of the countries reported having adopted advanced practices, more than 60 percent of the countries reported good practices, while only 5 percent of the countries reported basic practices. Among the three country sub-groups, practices reported by the CIS+Turkey group were the closest to advanced practices, on average. Western Balkan countries came next, and the NMS group reported the weakest practices on average. It is important to emphasize again that the survey relies on self-assessment by country authorities.

Most CESEE countries reported relying on direct control measures to manage the risks from government guarantees. All surveyed countries reported having a central registry and publishing the total stock of outstanding guarantees. Nearly all countries reported having a centralized authorization process for issuing guarantees and establishing legal limits on the maximum value of guarantees that can be issued.

There is room for improving risk management of government guarantees through indirect controls, provisioning, and risk transfer and sharing (Figure 26). At least one-third of surveyed countries reported not charging risk-related fees for guarantees, providing partial guarantees, requiring collateral, or provisioning for calls, while few countries reported having a dedicated buffer fund. Concerns about market depth, institutional capacity,
and political economy likely impair the use of risk transfer and risk-sharing mechanisms (IMF 2016b). In contrast, tools other than direct controls play an important risk management role in countries following international best practices, including through market-based incentives to mitigate risk (Box 4).

In the context of the COVID-19 pandemic, public guarantees have been ramped up in CESEE countries as a helpful tool for providing liquidity support to firms and households facing cashflow difficulties. In addition, umbrella guarantees (for example, covering loans to small- and medium-sized enterprises in affected sectors) could be more cost-effective than direct government support when the number of beneficiaries is large, as the transaction costs of distributing subsidies or loans are high, especially in countries where institutional capacity is weaker. While guarantees do not affect deficits or debt in near term, they expose the government to medium- and long-term fiscal risks. As discussed above, governments should ensure that guarantees are properly recorded and monitored. A centralized approval process (led by the Ministry of Finance or the cabinet) should be in place to ensure transparent ex ante assessment and ongoing monitoring. Policymakers should consider partial guarantees (to ensure that debtors still have incentives to repay) and risk-based guarantee charges to limit government exposures to fiscal risks. It is also important to make provisions for expected losses and retain the ability to recover assets.

Figure 25. Adoption of Best Practices for Managing Government Guarantees

Guarantees—Best Practice Principles Applied? (Number of countries)

<table>
<thead>
<tr>
<th>Question</th>
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<th>No</th>
<th>Don’t know</th>
</tr>
</thead>
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<tr>
<td>1. Central registry?</td>
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<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2. Publish the stock outstanding?</td>
<td>20</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>3. Publish details of new guarantees issued?</td>
<td>15</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>4. Central authorizing entity?</td>
<td>10</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>5. Law on maximum stock/new issuance?</td>
<td>5</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>6. Risk-related fees?</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>7. Partial guarantees?</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>8. Require collateral?</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>9. Provision for calls?</td>
<td>0</td>
<td>0</td>
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</tr>
<tr>
<td>10. Buffer fund?</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Survey questions:
1. Central registry?
2. Publish the stock outstanding?
3. Publish details of new guarantees issued?
4. Central authorizing entity?
5. Law on maximum stock/new issuance?
6. Risk-related fees?
7. Partial guarantees?
8. Require collateral?
9. Provision for calls?
10. Buffer fund?

Sources: Country authorities; and IMF staff calculations.
SOEs play a significant role in CESEE economies. They account for at least 5 percent of total employment or total value added in most of these countries, with shares as high as 15 percent in Poland and Russia, and 30 percent in Belarus (IMF 2019b). In many countries, SOEs underperform relative to private firms in terms of economic efficiency and governance. The balance sheets of state-owned banks pose significant fiscal risks in some countries, accounting for more than half of banking sector assets in Belarus, Russia, 

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12This section mainly draws on IMF (2019b), which we supplement with findings from our survey.
Central government guarantees are commonly used in Sweden. Central government credit guarantees amounted to 4.6 percent of GDP in 2018, concentrated in export credits and infrastructure projects (Box Figure 4.1). Given the significance of the public resources involved, transparent practices help ensure efficiency and public support.

Sweden’s framework for managing guarantees is consistent with best practices. The main practices can be grouped into:

- **Direct controls**: A decision by the Swedish parliament is required to issue a guarantee and to establish programs for different types of guarantees. In addition, the annual limits for specific programs require parliamentary approval. Once approved, guarantees are issued by the central government.

- **Indirect controls**: Guarantees are mainly regulated by the Swedish Budget Act (2011), augmented by the Guarantee Ordinance (2011). Any subsidy element of the guarantees is integrated with the budget and subject to fiscal framework rules. The Swedish National Debt Office (SNDO) coordinates the reporting of all government guarantees, performs risk analysis, and publishes an annual report on the total contingent liabilities of the Swedish government. Also, the SNDO publishes annual and semi-annual reports following accrual accounting rules. Finally, the SNDO is subject to financial and performance audits by the Swedish National Audit Office.

- **Risk transfer and sharing**: The recipient of a guarantee is required to pay a fee priced by the SNDO, based on a credit risk assessment of the specific project covered by the guarantee and which can also include a market-based risk premium for unexpected losses. Collaterals and legal covenants may also be used to mitigate risks.

- **Provisioning**: Fees for expected losses are deposited into an interest-bearing reserve account with the SNDO as of January 2018. Called guarantees are covered by the reserve account. This arrangement aims to make the guarantee scheme self-financing in the long term. Fees exceeding the expected losses are transferred back to the central government budget.

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1. This excludes government guarantees for deposit insurance (47 percent of GDP) and for capital injections (3 percent of GDP) that are regulated under special arrangements.

2. SNDO (2019).
and Ukraine. They also tend to lend to less profitable firms relative to private banks and carry fewer liquid assets. Finally, according to the survey of country authorities presented in this paper, CESEE SOEs are also major beneficiaries of government guarantees, amplifying fiscal risks and highlighting the need for proper risk management.

Previous IMF research highlighted important gaps in SOE governance in CESEE. A comprehensive survey of SOE governance frameworks in the areas of ownership, oversight, and fiscal links between SOEs and governments suggests that no CESEE country applies best practices in all areas (Figure 27). NMS countries performed relatively better, followed by CIS+ Turkey and Western Balkan countries, although there was substantial cross-country variation (IMF 2019b, World Bank 2014, and OECD 2015a).\(^\text{13}\)

Enhanced board selection processes could help improve SOE ownership policies. Decentralized models of SOE ownership could create conflict between policy-setting and ownership functions, resulting in regulatory capture. About 60 percent of CESEE countries report having centralized oversight of SOEs, in line with international guidelines. Most countries also follow international best practices of subjecting SOEs and private sector companies

\(^{13}\text{The survey in IMF (2019b) also reports on practices as self-assessed by the country authorities themselves.}\)
to the same regulatory, tax, and insolvency regimes, with the exception of Albania, Belarus, Bosnia and Herzegovina, Croatia, Lithuania, North Macedonia, Poland, and Ukraine. Best practices also recommend a centralized board selection process for SOEs, but that process is missing in more than two-thirds of CESEE countries, while a third also report lacking legislative requirements for a minimum number of independent board members.

Better performance monitoring and reporting practices could enhance SOE oversight. Effective performance monitoring is critical to maximize value creation while minimizing fiscal risks (Cegar and Parodi 2019). Most CESEE countries report having a financial oversight framework, but few set operational targets (eg, for production or profitability) or conduct performance evaluations. Most countries report having comprehensive financial reporting and auditing requirements, but only half publish consolidated SOE reports or require all SOEs to publish annual financial reports.

There is significant room for improvement in managing SOE/budget interactions in CESEE. Some good practice provisions are in place: most countries report having an explicit SOE dividend policy and including financial support to SOEs in their budget reports (even if comprehensiveness varies significantly). But there are also important gaps relative to international best practices (outlined in OECD 2015a), including specifying noncommercial SOE mandates (adopted by less than half of surveyed countries), ensuring arms-length financial relations between SOEs and the general government (fulfilled by less than 1/3 of reporting countries), establishing explicit no-bail-out clauses for SOEs, or following EU state-aid rules that constrain bailouts (reported by only half of CESEE countries). Box 5 discusses Slovenia’s experience.

The COVID-19 pandemic has increased fiscal risks related to SOEs in CESEE countries. The financial health of many state-owned enterprises has rapidly deteriorated (for example, national airline companies). In addition, in many countries, governments have chosen to channel some support measures through SOEs. It is more important than ever to establish and maintain consolidated financial reporting for the entire SOE sector. This would facilitate a “whole-of-government” approach to managing public finances and fiscal risks, for example, in assessing the potential impact of new policy measures.

\[14\] As an example of a credible no-bail-out rule, the EU Bank Recovery and Resolution Directive (BRRD) aims to prevent the moral hazard in bailing out banks by requiring that any extraordinary public financial support will normally entail at least some bail-in of shareholders and creditors.
SOEs have a strong presence in Slovenia. SOEs account for more than 10 percent of total employment and more than three times the OECD average (OECD 2015b) and receive government guarantees of about 13 percent of GDP. There are good practices as well as significant challenges in the way that Slovenia manages fiscal risks related to SOEs.

- **Government ownership policy:** Parliament has approved a government ownership policy, which is also published, but this policy has not been updated since 2015. The number of companies classified as “strategic” and “important” is large, even in competitive sectors like manufacturing and tourism, which most countries typically leave to the private sector. The flawed governance of a large bank with partial government ownership contributed to its failure in the 2013 banking crisis (IMF 2019b).

- **Financial oversight:** The authorities have set up an independent agency, Slovenia Sovereign Holdings (SSH), to provide financial oversight over nonfinancial SOEs. SSH has professional management, sets annual financial return targets, and is required to submit annual reports to parliament and publish them.¹ However, not all SOEs are required to be audited by independent external auditors.

- **Budget/SOE interactions:** There is no explicit legislation to provide noncommercial mandates for individual SOEs. The stock of government guarantees provided to SOEs is provided in the budget document, which is subject to parliamentary approval and published. The Ministry of Finance also assesses the fiscal risks of SOEs that are likely to receive government funding, although the results are not published. In the past, inappropriate lending from state-owned banks to SOEs created fiscal risks. The cost of government interventions to address the 2013 banking crisis amounted to about 12 percent of GDP, resulting in a sharp increase in public debt that required significant fiscal adjustment.

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¹SSH (2019).

Sources: OECD (2015b), IMF (2019b), and IMF (2019e).
The IMF promotes fiscal transparency mainly through program conditionality and technical assistance. This chapter discusses the IMF’s role in strengthening fiscal transparency, with a focus on European countries since 2008, during the decade or so since the onset of the global financial crisis. Regarding conditionality in IMF-supported programs, the Fund’s Monitoring of Fund Arrangements (MONA) database was used to access all structural benchmarks and prior actions in such programs in European countries since 2008. A total of 118 such structural measures related to fiscal transparency were identified in 14 European countries. That includes 16 structural measures on fiscal risks related to public investment management, 14 measures on risks related to subnational governments, 26 measures on fiscal risks related to public corporations, one measure on fiscal risks in general, and 61 structural measures on other issues related to fiscal transparency.

In particular, over the past decade:

- In **Albania**, structural benchmarks and prior actions under an IMF program have supported the authorities’ efforts to prioritize public investment projects and strengthen their internal auditing, improve the reporting of procurement and arrears by local governments, publish quarterly financial statements of the largest public corporations, and establish a fiscal risks unit at the Ministry of Finance.

- In **Bosnia and Herzegovina**, program conditionality has targeted restructuring and improved oversight of the state-owned railway and telecom companies, as well as a strengthening of SOE oversight and fiscal discipline at the subnational level.

- In **Greece**, structural measures adopted under an IMF program have made SOEs more financially transparent and have facilitated their restructuring.
In Hungary, structural conditionality has supported a restructuring of the state-owned railway company.

In Iceland, structural benchmarks and prior actions have targeted improvements in fiscal governance at the subnational level.

In Kosovo, structural measures have facilitated improved management of donor-financed capital projects.

In Latvia, program conditionality has supported the authorities’ efforts to produce a register of public corporations and a strategy to improve their management.

In Portugal, structural benchmarks and prior actions have supported a strengthening of the governance framework for subnational governments and the compilation of a comprehensive SOE report.

In Romania, program conditionality has facilitated the authorities’ efforts to prioritize their public investment portfolio, improve the reporting of arrears by local governments, and implement SOE reforms.

In Serbia, structural measures adopted under an IMF program have supported the authorities’ efforts to streamline public investment management (eg, project appraisal, selection, and budgeting) and strengthen the governance framework for subnational governments and public corporations.

In Ukraine, program conditionality has supported the authorities’ efforts to restructure large SOEs and strengthen oversight over public corporations, including by preparing a statement of fiscal risks related to SOEs.

Several Balkan countries have implemented a substantial number of structural measures related to fiscal transparency in the context of IMF-supported programs (Figure 28). Romania and Albania have implemented more structural measures than anybody else in Europe. They also happen to be the two most-improved according to the Open Budget Index (OBI) between 2010 and 2017 (see Figure 5). There is a positive relationship between structural conditionality in IMF programs and improvement in the OBI (Figure 29). Despite the small sample, there is a clear positive correlation between the two, with a correlation coefficient of 0.6. See Box 6 for a case study of the difference an IMF program can make in incentivizing improvements.
in fiscal transparency, but also the importance of strong and steadfast post-program follow-up.

IMF technical assistance (TA) in the area of fiscal transparency has heavily targeted program countries, as well as countries with the greatest potential for improvement. Data are available for technical assistance provided by the IMF Fiscal Affairs Department to European countries since 2008 in public financial management (PFM). The breakdown by country shows that most PFM technical assistance has gone to program countries (Figure 30). In addition, there is a negative correlation between a country’s Open Budget Index in 2010 and the total amount of PFM technical assistance it has received since 2008 (Figure 31). In other words, PFM technical assistance appears to have targeted the countries with the greatest potential for improvement.¹

See Box 7 for a case study of how IMF Fiscal Transparency Evaluations can serve as a catalyst for change.

¹No significant correlation exists between the total amount of PFM technical assistance a country has received since 2008 and improvement in the Open Budget Index between 2010 and 2017. The reason for this could be either that the Open Budget Index is a weaker measure than FTE ratings, or the technical assistance is more impactful with the support of an IMF program.
Figure 30. PFM Technical Assistance by Country

PFM Technical Assistance to European Countries, 2008–19
(Full-time equivalent, in years)

Source: IMF, Fiscal Affairs Department.
Note: Purple bars denote CESEE countries.

Figure 31. PFM Technical Assistance and Open Budget Index

Open Budget Index in 2010 and PFM TA to 22 European Countries since 2008

Sources: IMF, Fiscal Affairs Department; and Open Budget Survey.
Note: Purple dots denote CESEE countries. Country list uses International Organization for Standardization (ISO) country codes.
Albania made significant efforts to improve fiscal transparency practices in the context of an IMF-supported program during 2014–17. However, in several key areas the reforms have thus far not resulted in lasting improvements, particularly in fiscal risk analysis and management. From a formal point of view, Albania (together with Romania) has implemented the largest number of measures (structural benchmarks or prior actions) in the context of IMF-supported programs since 2008 (see Figure 28). Moreover, Albania’s budget openness improved the most among the 22 European countries covered by the Open Budget Survey between 2010 and 2017 (see Figure 5).

However, the reforms under the IMF-supported program have not so far resulted in the lasting improvements that were hoped for. While the program reforms offered a good starting point for changing public finance management, pre-existing practices often survived, despite the introduction of new rules or the creation of new formal institutions. The experience of Albania demonstrates that in the absence of technical capacity and strong and steadfast follow-up, the best policy intentions may have only limited impact in the end.

Key reform areas included the following:

- **A fiscal risk unit (FRU)** was established at the (then) Ministry of Finance in 2016. However, the unit has lacked the sufficient capacity and authority to assess fiscal risks. While the annual budget memorandum has included a brief chapter on fiscal risks since 2017, the FRU has yet to publish a comprehensive and in-depth fiscal risk report.

- **Asset and liability management**: The substantial stock of central government arrears (about 5 percent of GDP) identified in 2013 was mostly cleared within two years, with extensive involvement by external auditors. However, they have since reoccurred, reaching 1.9 percent of GDP as of mid-2019, including 1.2 percent of GDP in VAT refund arrears. IMF staff have urged the authorities to establish a system for the automatic payment of validated VAT refund requests through the Treasury, and to also stop linking the amounts available for making refunds to VAT collections or to a dedicated budget within the tax directorate for making refunds.

- **PPPs**: To mitigate risks, the Organic Budget Law was amended in June 2016 to integrate PPPs into the budgetary process and impose a ceiling on direct payments for PPPs (excluding contingent liabilities) at 5 percent of tax revenues for the previous year. However, the Ministry of Finance and Economy (MOFE) was not given a clear role as a gatekeeper to limit the financial costs and risks of PPPs until 2019. In addition, the Ministry of Finance and Economy still has insufficient project-by-project information and limited capacity for assessing and monitoring these costs and risks.
Box 6. Albania (continued)

- **Subnational governments**: The authorities have implemented an extensive local government reform to improve coordination and reduce the associated fiscal risks. Following local elections in mid-2015, a large number of communes and municipalities were consolidated into 61 units. The reform also included a fiscal decentralization and provided legal certainty on the annual transfers to local governments (set at 1 percent of GDP). The authorities have also adopted a new law on local finances to address fiscal risks and improve transparency and accountability. While the implementation of the new monitoring framework remains work in progress, it has resulted in important improvements. For example, although arrears at the local government level continue to exist, they have been on a downward path.

- **Public corporations**: The authorities implemented a series of reforms in the electricity sector, which is mostly state-owned and has been a major source of fiscal risks. They substantially lowered electricity distribution losses (from 45 percent in 2013 to 23 percent in 2018) and increased bill collection. A new power sector law was passed in May 2015 to reform the market structure and gradually remove commercial users from the regulated tariff system. However, the reforms remain only partially implemented, with little progress during 2019. Furthermore, the electricity sector is still running arrears, and struggling to cope with drought years when hydropower production falls.
Back in 2013, Russia was the first G20 country to volunteer for a pilot of the IMF’s then new Fiscal Transparency Evaluation (FTE). Russia’s FTE was published in 2014. In 2019, Russia became the first country to undergo an FTE Update. The 2019 FTE Update shows substantial improvement across the board, but particularly for the analysis and management of fiscal risks (see Box Figures 7.1 to 7.3). Most of the improvement under that pillar came in the area of risk disclosure and analysis.

In 2014, fiscal risks management was identified as an area of relative weakness, with the exception of relatively strong procedures for disclosing and controlling risks related to budgetary contingencies, guarantees, and subnational governments. Russia’s practices under this pillar were only slightly better than the average for emerging Europe.

Since 2014, fiscal risk disclosure has improved substantially with the publication of a comprehensive fiscal risks report, a long-term macroeconomic and fiscal forecast, and official estimates of Russia’s sub-soil reserves of natural resources. The fiscal risks report was prepared by a panel of government officials and external experts. It included analysis and discussion of a range of macroeconomic risks, including volatility in GDP, oil prices and volumes, and the exchange rate. It also discusses specific fiscal risks such as the government’s explicit and implicit exposures to the financial sector, financial pressures on subnational governments, and the erosion of the non-resource tax base. The authorities also published their first longer-term macroeconomic and fiscal forecast covering the
next 17 years (until 2036), using both central and more conservative scenarios for a range of macroeconomic and fiscal determinants. 2019 also saw the publication of the first official estimates of the volume and value of Russia’s sub-soil reserves of natural resources. All these reforms elevated Russia’s fiscal risk practices above the average for advanced European economies.

Nevertheless, Russia’s fiscal risk management practices continue to fall short of international best practices in a number of important areas. Recommendations for further improvements include:

- **SOE disclosure and oversight**: Produce a summary document on the financial performance of the SOE sector and require all SOEs to publish audited financial statements.

- **Monitoring, disclosure, and management of PPP-related fiscal risks**: Publish annual estimates of the government’s total long-term obligations under PPP contracts (about 2,500 contracts worth more than 2 percent of GDP).

- **Fiscal risks report (FRR)**: Publish an updated FRR every 3 years and require the government to respond within 2 years. Incorporate 30- to 50-year macroeconomic and fiscal projections into the FRR to assess intergenerational fairness under various scenarios for oil prices and other macroeconomic parameters.

- **Natural resources**: Publish annual estimates of the volume and value of Russia’s natural resource reserves under different price and production scenarios. Consider undertaking an evaluation of natural resource management against the recently introduced Pillar IV of the IMF Fiscal Transparency Code.
This study has shown that CESEE countries can improve fiscal transparency, thereby raising government efficiency and reducing corruption vulnerabilities. These countries should focus on the third pillar of fiscal transparency—fiscal risk analysis and management—as they face their greatest challenges in this area. This approach calls for capacity building to manage these risks and to adopt a risk-based approach to fiscal policy.

CESEE countries face significant fiscal risks that could compromise fiscal sustainability and macroeconomic stability. Key risk areas include public investment management, subnational governments, government guarantees, and SOEs. In each of these areas, the identification, quantification, and full disclosure of risks is the necessary first step from a fiscal transparency perspective. In all these areas, fiscal risks have increased, following the forceful public policy response to the COVID-19 pandemic.

The fiscal risk management toolkit of CESEE countries needs to be broadened to include indirect tools (regulations and charges) and risk transfer instruments, in addition to the direct controls already in place. For the four key areas analyzed in this study, the policy priorities are as follows, drawing on the survey of CESEE country authorities and case studies:

- **Public investment management**: publication of cost-benefit analyses for major projects should become the norm. To this end, guidelines and criteria need to be prepared and appropriate training provided. Also, the total value of each multi-annual investment project should be published. Public procurement should be enhanced and sustained by using open and competitive tenders.
- **Subnational governments**: the degree of their financial autonomy should be linked to their performance, as an indirect tool to mitigate their fiscal risks, as recommended in IMF (2016b). Moreover, the fiscal risk manage-
ment toolkit would benefit from risk transfer instruments, notably granting the central government the authority to liquidate assets and appoint administrators.

- **Government guarantees**: to enhance transparency and efficiency in managing guarantees, the central government should implement risk-related charges and/or require collaterals. Establishing buffer funds and applying fiscal risk analysis will also help mitigate risks stemming from guarantees.

- **SOEs**: Policy actions are needed on three fronts. Regarding ownership policy, professional SOE management and independent boards should become the norm. On financial oversight, targets for operational performance should be set, and aggregate SOE results published. On budget/SOE interactions, non-commercial mandates need to be restricted, and explicit limits on such interactions established.

Given the significant risks uncovered in this study, a risk-based approach to fiscal policy is desirable. This approach should start with the identification, quantification, and full disclosure of fiscal risks, including by publishing regular fiscal risk statements. Countries could also benefit from IMF assistance in this regard, such as Fiscal Transparency Evaluations and Public Investment Management Assessments. Implementing the recommendations may also require changes to existing legislation. In addition, for the most important sources of risks, macro-fiscal sensitivity analyses should be undertaken to help policymakers understand the effects of shocks to fiscal targets. Establishing fiscal councils could also play a useful role in mitigating fiscal risks.

The ongoing COVID-19 pandemic has raised both the importance and urgency of improving fiscal transparency in CESEE. Governments in the region have appropriately rushed to respond to the public health emergency and provide lifelines to households and companies. This has been accompanied by a rapid scaling-up of fiscal support, both on- and off-budget. Fiscal risks have increased, including because many countries have boosted health-related public investment, in some countries subnational governments are responsible for public health spending and unemployment benefits, public guarantees have been ramped up, and the financial health of many SOEs has rapidly deteriorated. This departmental paper offers insights on how to strengthen the analysis and management of fiscal risks in CESEE at a time when those have sharply increased, in order to ensure transparency, accountability, and good governance.

The initial focus should be on large risks with a high probability of materializing. Both explicit and implicit contingent liabilities should be considered. If more flexibility is needed on ex ante or upstream controls for the sake of a rapid response to the public health emergency, it might make sense to strengthen ex post controls, for example, by countries’ supreme audit institutions, legislatures, and civil societies. Given the heightened uncertainty around the size and length
of the economic impact of the COVID-19 outbreak, it is difficult to estimate both the probability that risks may materialize and their magnitude. Nevertheless, it is important to ensure transparency, accountability, and good governance in order to enable citizens to understand policy packages, help to sustain widespread support, get a clear picture of the associated medium-term risks, and bolster market confidence.
## Table A1.1. Sample Survey Result

<table>
<thead>
<tr>
<th>Public Investment Management</th>
<th>Reply</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Does the government require all major projects to be contracted via open and competitive tender?</td>
<td>YES</td>
</tr>
<tr>
<td>B. Following up on Question A, does this apply to the entire non-financial public sector, including projects undertaken by subnational governments and state-owned enterprises (SOEs)?</td>
<td>YES</td>
</tr>
<tr>
<td>C. Does the government regularly disclose the value of its total obligations under multi-annual investment projects?</td>
<td>NO</td>
</tr>
<tr>
<td>D. Does the government regularly subject all major projects to a published cost-benefit analysis before approval?</td>
<td>NO</td>
</tr>
</tbody>
</table>

### Guarantees

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<table>
<thead>
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<tbody>
<tr>
<td>E. Does the government maintain a central registry of guarantees?</td>
<td>YES</td>
</tr>
<tr>
<td>F. Does the government publish the stock of outstanding guarantees?</td>
<td>YES</td>
</tr>
<tr>
<td>G. Does the government publish details of any new guarantees that are issued?</td>
<td>YES</td>
</tr>
<tr>
<td>H. Is there a central authorizing entity for guarantees?</td>
<td>YES</td>
</tr>
<tr>
<td>I. Is the maximum value of new guarantees or their total stock authorized by law?</td>
<td>YES</td>
</tr>
<tr>
<td>J. Does the government charge risk-related fees for guarantees?</td>
<td>YES</td>
</tr>
<tr>
<td>K. Does the government resort to partial guarantees?</td>
<td>YES</td>
</tr>
<tr>
<td>L. Does the government require collateral when providing guarantees?</td>
<td>YES</td>
</tr>
<tr>
<td>M. Do the authorities provision for expected calls of guarantees?</td>
<td>YES</td>
</tr>
<tr>
<td>N. Have the authorities established a buffer fund for guarantees?</td>
<td>NO</td>
</tr>
</tbody>
</table>

### Subnational Governments

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<table>
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<tbody>
<tr>
<td>O. Do the authorities (central government or parliament) monitor the financial performance of subnational governments against benchmarks, such as fiscal deficit or debt targets?</td>
<td>YES</td>
</tr>
<tr>
<td>P. Do the authorities have in place fiscal rules or limits on borrowing for subnational governments?</td>
<td>YES</td>
</tr>
<tr>
<td>Q. Do the authorities link the degree of financial autonomy of subnational governments to their performance, that is, do subnational governments with better fiscal performance enjoy more financial autonomy, and vice versa?</td>
<td>YES</td>
</tr>
<tr>
<td>R. Have the authorities imposed annual reporting requirements on subnational governments?</td>
<td>YES</td>
</tr>
<tr>
<td>S. Have the authorities established credible no-bail-out clauses for subnational governments?</td>
<td>YES</td>
</tr>
<tr>
<td>T. Do the authorities retain the authority to liquidate assets of subnational governments or appoint administrators for them?</td>
<td>NO</td>
</tr>
</tbody>
</table>

### State-Owned Enterprises

<p>| | |</p>
<table>
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<tr>
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<tbody>
<tr>
<td>U. Does the country follow the EU state-aid rules that constrain bail-out of SOEs? Or in countries that do not follow EU state-aid rules, have the authorities established explicit no-bail-out clauses for SOEs?</td>
<td>YES</td>
</tr>
</tbody>
</table>


———. 2016a. “Corruption: Costs and Mitigating Strategies.” Staff Discussion Note 16/05, Washington, DC.


