

BUDGET TRANSPARENCY

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Glossary*

Budget transparency can be described in short as the full disclosure of all relevant fiscal information in a timely and systematic manner. This is at the same time the most frequent definition, used also by the OECD (2001). The International Monetary Fund (IMF, 2008) uses the term fiscal transparency, and defines it as being open to the public about the government's past, present, and future fiscal activities, and about the structure and functions of government that determine fiscal policies and outcomes.

Based on the experience of its member countries, the OECD drew up a set of *Best Practices* in this area; they refer only to the central government and not local units. *Best Practices* is divided into three parts. Part 1 lists the principal budget reports that governments should produce and defines their general content. The focus is on the budget, pre-budget report, monthly reports, mid-year report and year-end report. Part 2 describes the specific disclosures to be contained in the reports. This refers to, for example, detailed data on public debt, financial and non-financial assets and pension

insurance contributions. Part 3 highlights practices for ensuring the quality and integrity of the reports. This includes accounting policies, internal financial control, auditing, and parliamentary scrutiny.

The International Monetary Fund has published its *Code of Good Practices on Fiscal Transparency* (IMF, 2009). The *Code* is based on four general principles: 1) clarity of roles and responsibilities; 2) open budget processes; 3) public availability of information; 4) assurances of integrity. The basic guidelines following these principles are:

- the government sector should be clearly distinguished from the rest of the public sector and from the rest of the economy, and policy and management roles within the public sector should be clear and publicly disclosed;
- there should be a clear and open legal, regulatory, and administrative framework for fiscal management;
- budget preparation should follow an established timetable and be guided

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by well-defined macroeconomic and fiscal policy objectives;

- there should be clear procedures for budget execution, monitoring, and reporting;
- the public should be provided with comprehensive information on past, current, and projected fiscal activity and on major fiscal risks;
- fiscal information should be presented in a timely manner and in a way that facilitates policy analysis and promotes accountability;
- fiscal activities should be subject to effective internal and external oversight as well as consistent with the accounting standards.

In 2006, prompted by the IMF and OECD guidelines, the Center on Budget and Policy Priorities (CBPP) from Washington developed the *Open Budget Index*, which is calculated every second year, and enables international comparison of budget process transparency. According to the CBPP, transparency means that everyone in a country can access information on how much is allocated to different types of spending, what revenues are collected, and how international donor assistance and other public resources are used. The questionnaire on which the *Index* is based gathers information about the public availability and scope of several budgetary documents that appear in individual phases of the budgetary process. In the phase in which the budget is prepared, the Pre-Budget Statement is analysed; in the phase in which the budget is accepted, the Executive's Budget Proposal and Citizens' Budget are considered; and in the phase of execution of the budget (including implementation, supervision and control), the In-Year Reports, the Mid-Year Re-

port, the Year End-Report and the Audit Report are important.

Scores on the *Index*, the investigation for which covers many countries, range on a scale of from 0 to 100. Unfortunately, in more than half of the observed countries, citizens can get scant information about the budget, which enables governments to hide wasteful spending and corruption. African countries on average have the lowest score. Anglo-Saxon countries (the United Kingdom, New Zealand, the United States) dominate among countries that publish extensive information about the budget. CBPP researchers have established a positive correlation between the *Index* score and GDP per capita: richer countries have a better *Index* result. Croatia is positioned in the middle of the observed countries' scale, which means that policy makers should give citizens more information about the budget.¹

Based on its *Code*, the IMF publishes reports on fiscal transparency for individual countries, but for different years. The reports are available on the IMF's web page, including that for Croatia for 2004. It is worth mentioning that one of the main budget principles in Croatia's Budget Act (Official Gazette, 87/08) is the principle of transparency. This refers to obligatory publication of certain budget documents in the Official Gazette.

The access to information on the fiscal activities of the Government does not only let citizens have a better understanding of political and economic decisions that have a significant influence on their everyday lives, but also gives them an opportunity to participate in the decision-making process. Data about government activities facilitates

¹ Recommendations for the Croatian Ministry of Finance in order to raise the budget transparency can be found in Urban and Bađun (2009).

civil control over policy-makers, which has a beneficial effect on governmental accountability. The availability of information is extremely important for fighting corruption and achieving higher public service efficiency.

Since modern economies' budgets are very complex, the real budget balance is capable of being concealed. Policy makers can hide certain tax burdens, overemphasize the benefits of spending, and hide government liabilities. It is often not in the interest of politicians to have simple, clear and transparent budgets (Benito and Bastida, 2009). However, governments must make an effort to increase budget transparency, as it allows citizens and financial markets properly to assess governments' financial positions and performances, and improves the decision-making process of the economic agents.

LITERATURE

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