

SOME COORDINATES CONCERNING THE FISCAL TRANSPARENCY FROM ROMANIA

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Abstract:

Due to the economic and social phenomena and processes, the local, national and international size of taxation, the effects of international financial crisis, under the current circumstances, fiscal transparency has an important role in the public domain for any nation. When reference is made to fiscal reporting, to the fiscal and budgetary forecast, to public finance sustainability, to fiscal risk and fiscal management, increasing fiscal transparency must be the key for good governance, in order to develop fiscal performance. In this context, through this article we present some aspects relating to fiscal transparency from Romania, taking into account how to assess, the achieved level, the best practices and the size and sources of vulnerability. Without claiming an exhaustive approach, we believe that the issues of this article provides possible solutions for increasing fiscal transparency from Romania, so that, be establish a genuine fiscal credibility, aimed at ensuring economic and financial stability.

Keywords: *fiscal transparency, fiscal performance, standards and best practices, budget transparency*

JEL Classification: *H21, H30, H60*

1. Introduction

Starting from the place and role of taxation at economic financial, social and political level, in many studies and research are approached the possibilities to improve the fiscal field, taking into account the fiscal system, the fiscal mechanism, the fiscal institutions, the fiscal and budgetary framework. In all these analyzes is retrieved the fiscal transparency issues, because in the most low sense, the transparency involves more information provided, predictability, credibility, trust and coordination (Alt, Lassen and Rose, 2006), and in the fiscal area the impact is direct and positive on fiscal performance (Alt and Lassen, 2006).

What is fiscal transparency? How is fiscal transparency evaluated? What is the level of fiscal transparency? What are the best practices on fiscal transparency? What are the dimensions and sources of vulnerability for fiscal transparency? ... These are a series of questions to which each state must find an answer, because fiscal transparency is one that can provide solutions to the fiscal and budgetary imbalance.

In this context, through this article we will present some aspects of fiscal transparency from Romania, in order to emphasize its importance in providing a real partnership between the state and taxpayers.

2. Key elements of fiscal transparency

The definitions for fiscal transparency found in the literature highlight its crucial role in the public domain. So, Kopits and Craig have defined the fiscal transparency as “public openness about the structure and functions of government, fiscal policy intentions, public sector accounts and fiscal projections” (Kopits and Craig, 1998) and the International Monetary Fund presents the fiscal transparency as “the comprehensiveness, clarity, reliability, timeliness, and relevance of public reporting on the past, present, and future state of public finances” (IMF, 2015).

Recent concerns for increasing fiscal transparency arise because fiscal transparency is often associated with: better fiscal and budgetary outcomes and reduced costs for public borrowing (Wehner and Renzio, 2013); public goods more attractive to taxpayers (Alt, Lassen and Skilling, 2002); promoting accountability in fiscal and budgetary area (Truman, 2008); effectiveness in monitoring (Corbacho and Schwartz, 2007); positive results for the design and sustainability of fiscal and budgetary policies (Arbatli and Escolano, 2015); the possibility of corruption reducing (Hameed, 2005).

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Taking into account both the quantitative and the qualitative aspects, the international institutions have analyzed and continue to examine the fiscal transparency. Through reports submitted is highlighted: fiscal transparency benefits; the link between fiscal transparency and fiscal performance; the interaction between fiscal transparency and financial markets; the principles that must be respected and the steps need to be followed by governments to ensure fiscal transparency; indicators to measure fiscal transparency; the dimensions and sources of vulnerability in fiscal and budgetary field; best practices to increase fiscal transparency; the role of civil society in promoting fiscal transparency.

Organization for Economic Cooperation and Development has designed in 2002 a reference tool for increasing budget transparency. So, through the three parties, OECD Best Practices for Budget Transparency (OECD, 2002) references are made to: budget reporting (pre-budget report, monthly reports, mid-year report, year-end report, pre election report, long-term report); specific disclosures (economic assumptions, tax expenditures, financial liabilities and financial assets, non-financial assets, employee pension obligations, contingent liabilities); integrity, control and accountability (accounting policies, systems and responsibility, audit, public and parliamentary scrutiny).

International Monetary Fund encourages and promotes fiscal transparency based on standards and best practices. So, Code of Good Practices on Fiscal Transparency (published by IMF for the first time in 1998 and updated in 2007) along with Manual of Fiscal Transparency and Guide on Resource Revenue Transparency, are for worldwide, central parts of fiscal transparency standards. Through the IMF's Code of Good Practices on Fiscal Transparency are identified principles and practices that can help governments in the clear presentation of the structure public finances (IMF, 2007a). Based on the experience of Member States, through the IMF's Manual of Fiscal Transparency are provided guidelines for implementation of the Code (IMF, 2007b), and the IMF's Guide on Resource Revenue Transparency provides the application of the principles of the Code to a unique set of problems (IMF, 2007c). The four pillars of the Code of Good Practices on Fiscal Transparency contain a number of principles with clear benchmarks for compliance and applicability. Pillars I-III have been issued in time and include principles on the fiscal reporting, fiscal forecasting and budgeting, fiscal risk analysis and management, and Pillar IV is in the process of public consultation, with reference to resource revenue management (IMF, 2015).

Based on a questionnaire, the non-governmental organization International Budget Partnership measures fiscal transparency, taking into account the answers given on the availability of budget documents, the executive's budget proposal, the budget process, strength of the legislature, citizens budget and public engagement in the budget process, thus being achieved The Open Budget Survey (IPB, 2011). For 2015, The Open Budget Survey centralized information from 102 countries, through 140 questions, covering: executive's budget proposal and supporting documents; pre-budget statement; enacted budget; citizens budget; in-year reports; mid-year review; year-end report; audit report; strength of the legislature; strength of the supreme audit institution; public engagement in the budget process (IPB, 2015). According to the methodology (IPB, 2015), the participants in questionnaire can choose for every question from five or three answers. For questions with five answers for each standard is indicated: the answer "a" if the full standard is met or exceeded, the answer "b" if the basic elements of the standard have been met, the answer "c" if there is minimal efforts to attain the relevant standard, the answer "d" if the standard is not met at all, or the answer "e" if the standard is not applicable. For the construction of Open Budget Index the answer "a" has a score of 100, the answer "b" has a score of 67, the answer "c" has a score of 33, the answer "d" has a score of 0, and the answer "e" is not included in the aggregate score. In case of questions with three answers for each standard is indicated the answer "a" for

standard met with a score of 100, the answer “b” for standard not met with a score of 0, or the answer “c” for not applicable standard, this response is not included in the aggregated score.

The analyzes carried out by international organizations highlight best and good practices, thereby promoting fiscal transparency, which is associated with better fiscal results, with higher credit ratings, with the high level of institutional development (Arbatli and Escolano, 2015), so, fiscal transparency being considered key to good governance.

3. Evaluation of the Romania fiscal transparency based on the IMF standards

The first pillar of the IMF’s Code of Good Practices on Fiscal Transparency includes assessment of the manner in which is rendered Government financial position and performance through fiscal reports, with consideration of the application of international standards for fiscal activity of the public sector, the mode for publication of the fiscal reports, the relevance and consistency of information in the field of taxation, the reliability of fiscal statistics and financial statements (IMF, 2007a).

So, according to the IMF report published in March 2015, of the 12 areas analyzed for fiscal reporting, Romania registers a good or advanced practice in 7 areas, as shown in Fig. no. 1 (IMF, 2015b).

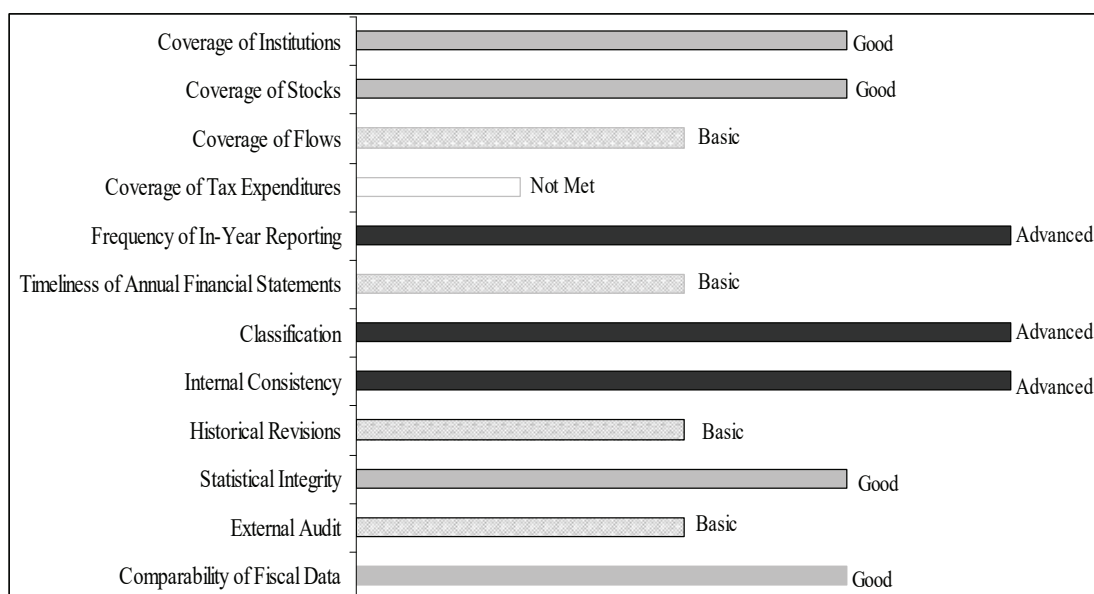


Fig. no. 1 Romanian practices for fiscal reporting

Source: IMF Country Report No. 15/67

Through Pillar II of the IMF’s Code of Good Practices on Fiscal Transparency is evaluated the fiscal and budgetary forecast in terms of the comprehensiveness of the public budget and related documentation, the orderliness of the budgetary process, the objectives and intentions of fiscal and budgetary policy, the credibility of projections for public finances (IMF, 2007).

In the report the IMF, Romania has achieved a good or advanced practice in 5 of the 12 areas of fiscal forecasting and budgeting, as shown in Fig. no. 2 (IMF, 2015b).

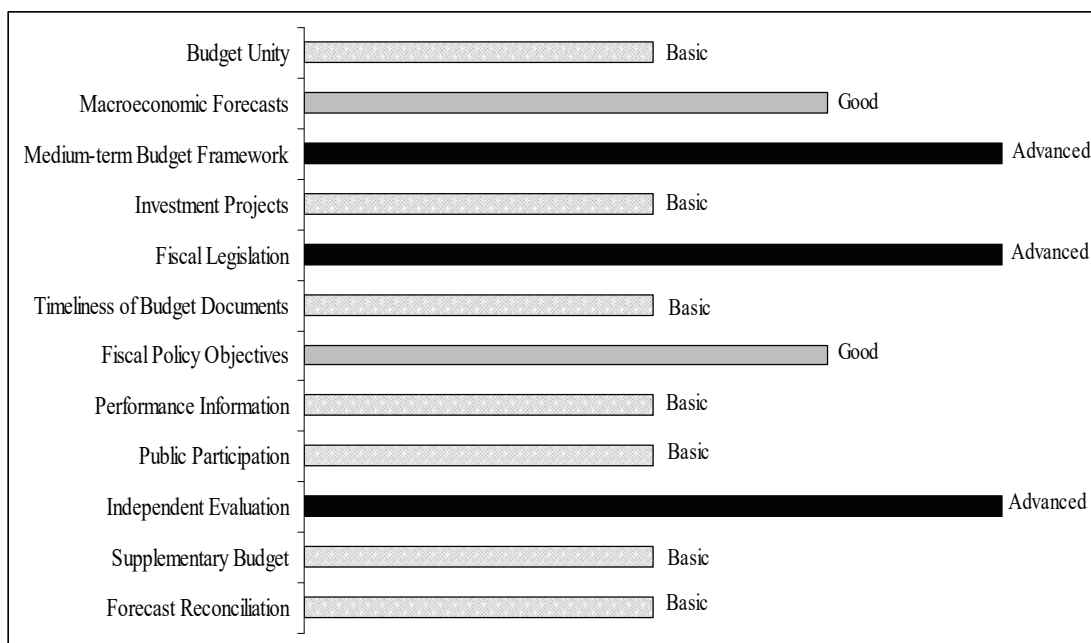


Fig. no. 2 Romanian practices for fiscal forecasting and budgeting

Source: IMF Country Report No. 15/67

Periodical publication of summary reports concerning public finance risks, regularly monitoring and administration the fiscal risks, as well as the presentation, analysis and coordination of fiscal relations and performance in the public sector are areas subject to evaluation through Pillar III of the IMF's Code of Good Practices on Fiscal Transparency referring to fiscal risk analysis and management (IMF, 2007a).

According to the IMF report, out of the 12 areas of fiscal risk analysis and management in Romania are found only 7 areas, being registered good or advanced practice only in two areas, as shown in Fig. no. 3 (IMF, 2015b).

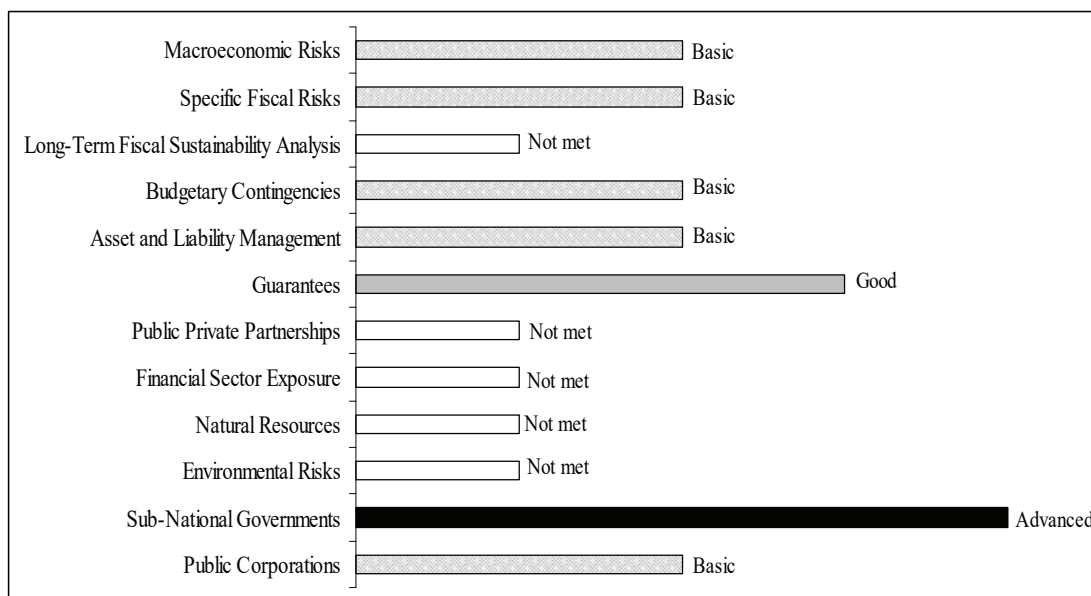


Fig. no. 2 Romanian practices for fiscal risk analysis and management

Source: IMF Country Report No. 15/67

By centralizing the information provided by the IMF report for Romania concerning fiscal transparency (as shown in Fig. no. 4) it is observed that are implemented best and advanced practices only in proportion of 38.8%, more areas are at a minimum level of implementation or even are not implemented.

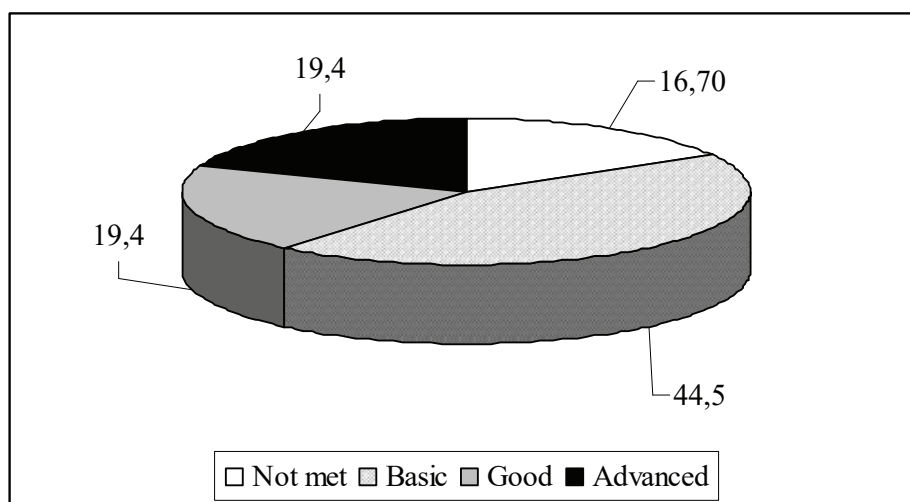


Fig. no. 4 Structure of standards and best practices concerning fiscal transparency in Romania, according to the IMF assessment

Source: author processing based on IMF Country Report No. 15/67

Although, since 2010 Romania has made significant progress in fiscal transparency based on public finance management reform, there are enough deficiencies regarding: the estimation of macroeconomic indicators; the evaluation and supervision of public investments; the promptness in the budgetary process; the transmission of relevant documents to the Fiscal Council in order to achieve pertinent analyzes; the budgetary expenditure review; the volatility level of the economy; the inclusion in fiscal reports of large state companies; analysis the impact of fiscal and budgetary changes on macroeconomic environment; consolidating of government operations, assets and liabilities; the identification and management of all fiscal risks.

4. Budgetary transparency in Romania on the basis of OBI score

Responses to the questionnaire drawn up by non-governmental organization International Budget Partnership on the assessment of budgetary transparency, as well as the position occupied among the states participating in study emphasizes strengths and weaknesses from fiscal and budgetary areas for each country, because open budget is the key to open government.

According to OBI score (IPB, 2015), the states participating in the study are divided into five categories depending on how it is provided budget information, respectively: insufficient - scant or none (with a score between 0 and 20); insufficient – minimal (with a score between 21 and 40); insufficient – limited (with a score between 41 and 60); sufficient – substantial (with a score between 61 and 80); sufficient – extensive (with a score between 81 and 100).

If in the period 2006-2012 Romania has a substantial decrease for OBI score, according to the 2015 report (IPB, 2015b) with an OBI score of 75, Romania occupies the 9th position among the 102 countries surveyed.

Evolution of OBI score for Romania and the attribute conferred to budgetary transparency is shown in Tab. no. 1.

Tab. no. 1 OBI score for Romania

Open Budget Survey	OBI Score for Romania	OBI category for Romania	Number of countries participating in the survey	Romania Rank	Maximum and minimum OBI score
2006	66	Sufficient Substantial	59	13	France – 89; Vietnam - 3
2008	62	Sufficient Substantial	85	17	United Kingdom – 88; Equatorial Guinea, Sudan - 0
2010	59	Insufficient Limited	94	23	South Africa – 92; Chad, Equatorial Guinea, Fiji, Iraq, <u>São Tomé e Príncipe</u> - 0
2012	47	Insufficient Limited	100	49	New Zealand – 93; Equatorial Guinea, Myanmar, Qatar - 0
2015	75	Sufficient Substantial	102	9	New Zealand – 88; Qatar, Saudi Arabia - 0

(Source: IPB, *Open Budget Survey - Romania*)

The structure of the scores obtained for the answers provided by Romania at the 140 questions from OBI 2015 report (as it results from Fig. no. 5) show the effort that must be made to increase budgetary transparency.

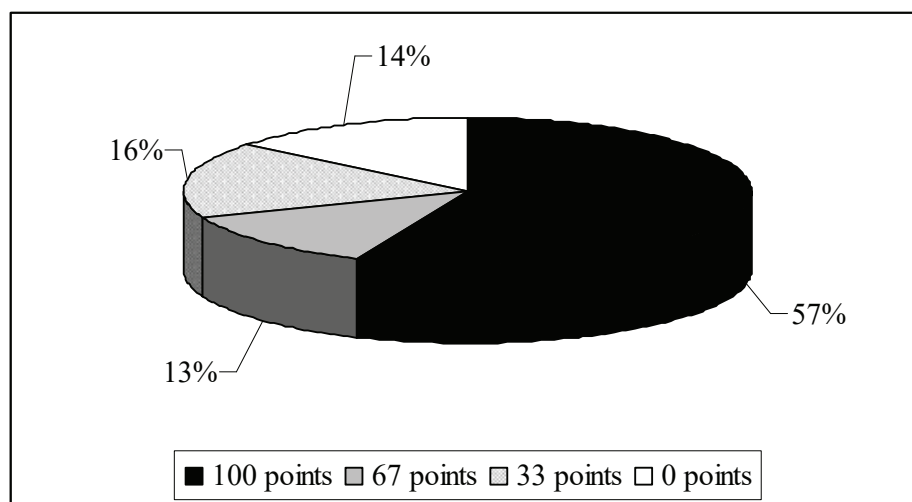


Fig. no. 5 Structure of standards and best practices concerning budgetary transparency in Romania, according to the International Budget Partnership assessment

Source: author processing based on Open Budget Survey 2015 – Romania

Although, the score of 75 obtained by Romania is substantially higher than the global average score of 45, there are many opportunities to increase budgetary transparency. Thus, can be taken actions in order to: presenting estimates of expenditure arrears; argumentations for the tax expenditures concerning the beneficiaries and loss of income; public presentation of the timetable concerning fiscal and budgetary proposals; publication the Citizen’s Budget; establishment of mechanisms to identify the requirements of the public on the Citizen’s Budget; estimating and presenting actual expenditures by program; updating the revenue estimates; presentation the differences between the original estimates and the final results for non-financial data; presentation of measures taken by the Executive as a result of the audit findings; supplementary budget approval before funds be exhausted; public involvement

during the budgetary process; the existence of formal mechanisms for public participation in audit investigations.

5. Conclusions

The role and impact of public finances on the economy is very important and complex. If through fiscal policy are established the amount and provenance of public resources, the methods of taxation and the means for achieving them, budgetary policy represent the expression of budgetary choices made by political factors relating solely to economic and social finalities, the instruments used being public expenditure (Comaniciu, Bunescu and Mihaiu, 2010).

According to Romanian legal provisions, fiscal and budgetary policy action must follow a set of principles designed to confer: transparency about the setting of objectives and actions that lead to achieving them; predictability in the medium term to ensure macroeconomic stability; prudence in the management of public resources, budgetary obligations and fiscal risks in order to ensure sustainability of public finances; elimination of the negative financial impact on future generations and economic development in the medium and long term; efficiency in the use of public financial resources; efficiency in the use of public financial resources intended for staff costs (Law no. 69, 2010).

In this context, fiscal and budgetary transparency is the key to good governance, the key for development fiscal performance. In order to improve fiscal transparency and the fulfillment of international standards in this area must be respected a series of principles (GIFT, 2015), such as: public availability of fiscal and budgetary information; clear and timely presentation of fiscal and budgetary policy objectives, of actions taken and of the deviations from the initial plans; high quality presentation of financial and non-financial information through periodical reports related to past, present and future situations; identification and disclosure of social, economic and environmental effects of the fiscal and budgetary policy measures; full legality and transparency of public sector transactions; establishment and enforcement of clear rules and procedures concerning the reporting from the fiscal and budgetary field; establish clear responsibilities from taxation and budgetary field, incurring liabilities and appropriate management of public financial resources; public revenue collection and public expenditure commitment only with legislative approval, through public budget or other legislative acts; ensuring completely independence, accountability and transparency for the Supreme Audit Institution to audit and report publicly collection and use of public financial resources; direct participation of citizens in public debate on budgetary and fiscal policy.

Without claiming an exhaustive approach, we consider that theoretical and pragmatic aspects presented in this article can provide directions of approach by political factors, for improving the fiscal transparency in Romania, so that, be establish a real partnership between the state and citizens.

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