



THE FISCAL TRANSPARENCY IN ROMANIA AND TURKEY: A COMPARATIVE STUDY

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Abstract

The recent financial crisis had a significant impact on global economy and fiscal transparency all over the world. International Monetary Fund and other international institutions are concern about fiscal policy, fiscal reforms and fiscal transparency among its member countries.

The aim of this paper is to present a comparative study of fiscal transparency in Romania and Turkey, the evolution of fiscal and financial reforms, and weaknesses in the public system in Romania and Turkey. Romania and Turkey have a positive evolution in the last decades regarding fiscal, financial reforms and budget structure according to EU regulations.

Key words: *corruption; fiscal transparency; fiscal policy.*

JEL Classification: D72, E60, E62



Introduction

This paper seeks to present a comparative study of the fiscal transparency and corruption in two different countries, Romania member of EU and Turkey a candidate country and a strategic partner for the European Union, both interested to fight against corruption and bureaucracy, in order to improve the public financial management and tax administration. In our opinion, fiscal transparency is an important indicator for economic development and modernization of the central government, but also for local government and public management in general.

Fiscal transparency became a priority in all EU countries [Adam, 2015] and is crucial for effective public management, accountability and performance in the public sector. Fiscal transparency is related to fiscal policy, public budgets, corruption and fiscal reforms, in order to ensure that governments have an accurate image of their finances when planning budgets and adopting decisions to reduce the public deficit. Fiscal transparency is an efficient instrument to fight against corruption and bureaucracy and EU is encouraging the European co

Financial reporting can provide a reliable basis for tracking cash flows, commitments, payments, liabilities, revenues, arrears and assets. According to IMF, fiscal transparency is important for all governments and requires a transparent, modern and comprehensive accounting system to predict the future cash requirements of the entity. Transparent budget execution provides information for the public management and helps users to evaluate the changes in net equity of an entity. Thus, an effective accounting system will provide accurate information to cover all fiscal transactions and to improve the internal control [IMF, 2007].

Fiscal Transparency Code was adopted by International Monetary Fund (IMF) and became an important set of principles to debate and analyse the public finance reports. Those principles are built around four pillars that became key elements of fiscal transparency among its member countries:

- fiscal reporting;
- fiscal forecasting and budgeting;
- fiscal risk analysis and management;
- resource revenue management.

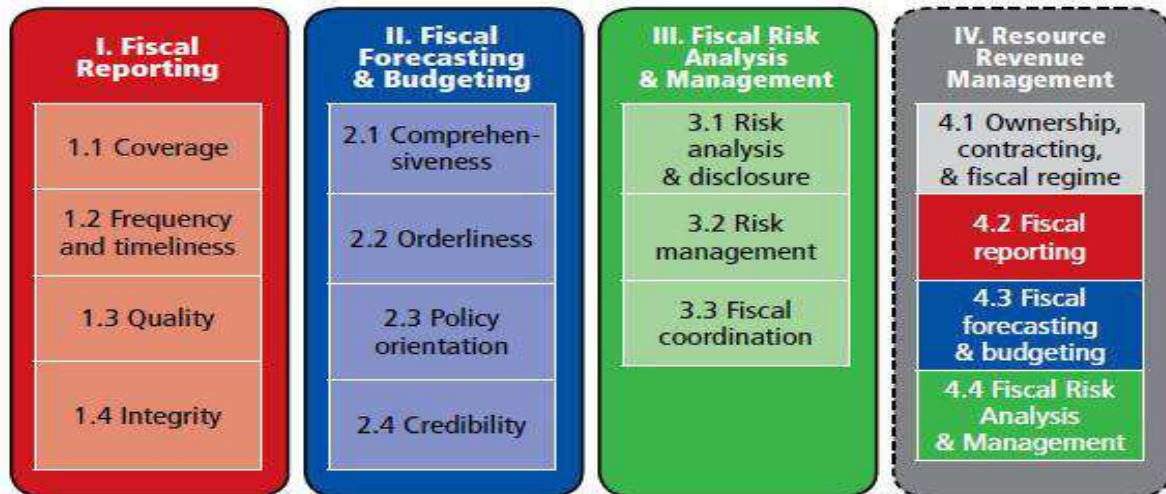


Figure no. 1. The Four Pillars of the Fiscal Transparency Code

Source: <http://www.imf.org/external/np/fad/trans/>

Literature Review

The paper has based its conclusions on the following papers and researches:

International Monetary Fund (2007) that published the *Manual of Fiscal Transparency*, where is presented the fiscal transparency concepts, the pillars and principles of transparency. The Fiscal Transparency Code developed a set of rules and practices, such as:

- functions and structure of the government;
- roles of the legislative, judicial and executive branches of government;
- important responsibilities for level of the government;
- relationships between public corporations and government;
- role of the government in the private sector.

There is a strong relation between fiscal transparency, accounting system and financial reporting. Thus, the Fiscal Transparency Code includes good practices relating to the accounting system, in-year reporting, supplementary budgets, and the presentation of audited final accounts to parliament. In the Fiscal Transparency Code there are some basic rules such as:

- all financial accounts are the subject of audit;



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- the auditors reports are transparent and will be published within a year in order to allow the public to read and understand;
- all the commitments, revenues, payments, and arrears can be followed effectively and immediately;

The public accounting system is developed based on international regulation, principles and standards, and will facilitated efficient collection of taxes and non-tax revenues. Thus, the accounting system will become a reliable basis for planning financial obligations and multi-annual investment projects. [IMF, 2007]

Adam, A. (2015) explains in her research “*Fiscal Transparency in the European Union*” how the fiscal transparency provides to the policy-makers the ability to accurately analyse the costs and benefits of any changes in the fiscal policy. She thinks that benefits of practicing fiscal transparency are numerous and other research in the field confirms this statement. “The fiscal transparency helps to identify potential risks regarding the fiscal outlook allowing a reaction from fiscal policy to changes in the macroeconomic framework, borrowing cost, minimizing corruption and reducing the accounting creativity” [Adam, 2015]. The fiscal transparency is a key point in the fiscal policy stance and during the economic pressures manifested at a global level, the major initiatives on fiscal transparency assessment are important for the economic development.

Fiscal Transparency in Romania and Turkey

The fiscal and financial reforms from Romania in the last decade led to improvements in fiscal transparency and efficient public management. According to the experts from International Monetary Fund (IMF), in Romania was noticed a very good level of transparency, the fiscal system is flexible and modern like any other EU member state, the collection level of taxes is satisfactory. Romania was recently rated as good or advanced in 8 out of 11 dimensions. It is important to mention the coverage and quality of fiscal reports and the evolution of fiscal statistics [IMF, 2015]. During the last decades it was a good cooperation between Romania and IMF and the last visit from 2014 highlighted the good results at the end of Fiscal Transparency Evaluation (FTE). Evaluating Romania’s fiscal reporting, forecasting, and budgeting, and fiscal risks analysis and management



practices against the revised Fiscal Transparency Code was a challenge for the IMF experts due to the significant progress that the country registered in the last decade. During the evaluation, were highlighted the significant reforms implemented in Romania, such as [IMF, 2015]:

quality, frequency, and coverage of general government fiscal statistics;

modern European legislation and regulation;

adoption of a Fiscal Responsibility Law (FRL) and ensuring fiscal sustainability for medium and long-term economic development;

independent fiscal council from 2010 that provided analysis and suggestions on projecting new fiscal policy;

new budgetary and fiscal strategy, to facilitate the preparation of the annual budget.

The result of fiscal transparency evaluation is that Romania performs well against the Fiscal Transparency Code in many areas and the Fiscal Transparency Code was well implemented. The conclusion of the IMF visit was related to the effectiveness of the public management and the use of public funds and resources. Thus, the most important findings of the fiscal transparency evaluation are [IMF, 2015]:

Fiscal Reporting: Romania has a good level in 8 out of 11 dimensions, including the coverage and classification of fiscal reports and the integrity of fiscal statistics. However, the availability of large volumes of information on general government operations is undermined by the fragmented nature of that data, and the absence of a comprehensive set of consolidated Government financial statements produced according to international regulation. The experts observed how Romanian corporations sector is not included in consolidated fiscal report.

Fiscal Forecasting and Budgeting: there is significant progress in some areas, such as: fiscal legislation and budget regulation, medium-term budget framework, macroeconomic forecasting. All of them, including fiscal council are all rated as good or advanced against the Code, but some other areas must be improved, such as: management of public investments, development of citizens' budgets and the coverage of the budget, despite the fact that many reforms have been implemented.



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Fiscal Risk: Fiscal risk is related to revenue collection and a good level of fiscal transparency was observed in Romania. Thus, there is significant progress in identifying and reporting state guarantees and a better evaluation of the public funds risks associated. Recent reforms were combined with a good management in order to reduce the financial sector exposure and environmental risks. At the end of the visit, the IMF experts recommended to improve the level of transparency for [IMF, 2015]:

existing fiscal reporting and expand the information technology to all public sector;

quality and integrity of fiscal and financial reports based on accrual system, ensuring external audits of government accounts according to international standards;

sharing of taxpayer information at macroeconomic level;

accurate forecasts in public budgets, clarity and openness of successive medium-term fiscal forecasts;

multi-annual budgets including costs of public investments for medium-term fiscal objectives.

At the end of the IMF visit in 2014, the experts presented a complex report with fiscal transparency positive indicators, most of them as good or advanced in 15 of the 36 dimensions. Also, the modernization of fiscal administration information system provides relevant, accurate, reliable and timely information to government and public management [Serban *et al*, 2015].

Fiscal transparency in Turkey is a priority for the government and the last visit from IMF was during 2006, when many reforms were implemented. According to IMF, since the 2002 update, Turkey has continued to make progress toward meeting the requirements of the fiscal transparency code, in particular through a substantial overhaul of the legal system [IMF, 2006].

The responsibilities of different levels of government are generally well-defined but a number of provisions introduce an element of risk for municipalities. Also, accounting and reporting of local government operations could be improved with more comprehensive data. Despite the progress achieved in developing the financial management system, some arrears could still be accumulated without the knowledge of central



government authorities, because “the Treasury releases cash to the spending agencies accounts rather than the invoices of goods and services, and no controls are exercised to ensure that the spending ministries have ultimately paid their obligations” [IMF, 2006].

After the fiscal transparency evaluation in 2006, Turkey still falls short of the requirements and further reforms are needed to move towards meeting best international standards. The financial and economic crisis from 1990 and 2000 had a significant impact on fiscal transparency and corruption in Turkey [Acar, 2007], and fiscal transparency issue was mentioned in the Stand-by Agreement with the IMF (1999) in order to find new methods to improve fiscal activities of the public sector. Since 2000, the government has introduced inflation accounting and eliminated a number of *ad hoc* inflation compensation mechanisms (including long lags in collection) [IMF, 2006].

One of the most comprehensive efforts to ensure fiscal transparency in Turkey is The Restructuring of Public Financial Management and Fiscal Transparency – Special Expert Commission Report, adopted in 2000. According to this report some measures aimed to ensure the fiscal discipline and fiscal transparency will be implemented, such as: all budget expenditure will be included into the budget and a new classification of public financial management will be adopted. The adoption, in December 2003, of the Public Financial Management and Control Law (PFMCL no. 5018) was designed to provide the necessary framework for further reforms.

In order to improve the fiscal transparency, the Strategy of Increasing Transparency and Strengthening Combating Corruption (2010-2014) was adopted in Turkey. The main aim of this strategy was expressed as “to prevent transparency and eliminate the factors the boosts corruption, development of more equitable, accountable, transparent and a reliable management concept”. The main components of this strategy have been identified as the prevention of corruption, the implementation of sanctions and increasing public awareness.

The comparative study of fiscal transparency is presented in the table below:



Table no. 1. The Good Level of Fiscal Transparency Practice in Romania and Turkey

Pillars of Fiscal Transparency	GOOD AND VERY GOOD LEVEL OF PRACTICE	
	Romania	Turkey
1	2	3
1. Fiscal Reporting	<ul style="list-style-type: none"> - Coverage of Institutions (good) - Coverage of Stocks (good) - Timeliness of Annual Financial Statements (basic) - External Audit (basic) - Internal Consistency (advanced) - Statistical Integrity (good) - Coverage of Flows (good) - Frequency of In-year Fiscal Reports (advanced) - Classification (advanced) - Historical Consistency (basic) - Comparability (good) 	<ul style="list-style-type: none"> - Coverage of Institutions (good) - Coverage of Stocks (not enough) - Timeliness of Annual Financial Statements (not enough) - External Audit (not enough) - Internal Consistency (not enough) - Statistical Integrity (not enough) - Coverage of Flows (not enough) - Frequency of In-year Fiscal Reports (not enough) - Fiscal Reports (good) - Classification (good) - Historical Consistency (not enough) - Comparability (good)
2. Fiscal Forecasting and Budgeting	<ul style="list-style-type: none"> - Macroeconomic Forecast (good) - Investment projects (basic) - Timeliness of Budget Documents (basic) - Independent 	<ul style="list-style-type: none"> - Macroeconomic Forecast (good) - Investment projects (not enough) - Timeliness of Budget Documents (good) - Forecast Reconciliation



	<p>Evaluation (advanced) - Forecast Reconciliation (basic) - Budget Unity (basic) - Medium-Term Budget (advanced) - Fiscal Policy Objectives (good) - Performance Information (basic) - Public Participation (basic) - Supplementary Budget (basic) - Fiscal Legislation (advanced)</p>	<p>(not enough) - Budget Unity (not enough) - Medium-Term Budget (good) - Fiscal Policy Objectives (not enough) - Performance Information (not enough) - Public Participation (not enough) - Supplementary Budget (good) - Fiscal Legislation (good)</p>
<p>3. Fiscal Risk Analysis and Management</p>	<p>- Macroeconomic Risks (basic) - Specific Fiscal Risks (basic) - Asset and Liability Management (basic) - Sub-national Governments (good) - Budgetary Contingencies (basic) - Public Corporations (basic) - Guarantees (good)</p>	<p>- Macroeconomic Risks (good) - Specific Fiscal Risks (good) - Asset and Liability Management (not enough) - Sub-national Governments (not enough) - Budgetary Contingencies (not enough) - Public Corporations (not enough) - Guarantees (not enough)</p>

Source: Authors' own work based on IMF reports



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The good level of fiscal transparency is reflected in the Corruption Perception Index (CPI), an interesting indicator to measure the level of fraud and corruption in the public sector administration. According to Transparency International Organization, corruption level could be perceived from a scale of 0-100, where 100 mean a very clean country and 0 means a corrupted one. We present our data and estimation in the table below:

Table no. 2. The Corruption Perception Index in Romania, Turkey, Bulgaria and Greece period 2012-2016

Country	Score				
	2012	2013	2014	2015	2016
Romania	44	43	43	46	48
Turkey	49	50	45	44	46
Bulgaria	41	41	43	41	41
Greece	36	40	43	46	46

Source: <http://www.transparency.org> and authors' estimation

We observe in Table no. 2 that CPI is much better for Romania and Turkey then Bulgaria and Greece for the period 2012-2015 and our estimation for 2016. Corruption is a big problem for all countries because the world economy became international integrated and the perception of corruption is related to fiscal transparency. In our opinion, Greece is affected by the global financial crises much more than other EU countries.

Conclusion

In this research we presented the analysis of the fiscal transparency in Romania and Turkey. In our opinion the economic crises had a significant impact on fiscal transparency all over the world and more fiscal reforms were implemented in the last decade. Implementation of Fiscal Transparency Code is imperative for all IMF member states in order to insure the effective fiscal management and accountability. In our paper we presented a comparative study between Romania and Turkey, the



weaknesses and new reforms aimed at ensuring fiscal sustainability over the medium to long term. We noticed in Romania a good program of public financial management reform and in Turkey efforts to modernize the public sector and manage risks to the public finances.

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