

**Public Finance Management reform and overall  
economic performance in selected CEE countries:  
Case studies**

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## Structure

1. Introduction
2. Case Study: Slovakia
3. Case Study: Estonia
4. Case Study: Poland
5. Conclusions

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# 1. Introduction

*This Policy Briefing is a follow-up to the Policy Paper “The role of fiscal transparency in raising the efficiency of public expenditure” (GET Belarus PP/01/2015). The Policy Briefing serves to illustrate how other CEE countries have managed Public Finance Management (PFM) reforms.*

Countries selected: **Slovakia [SVK]; Estonia [EE]; Poland [POL]**

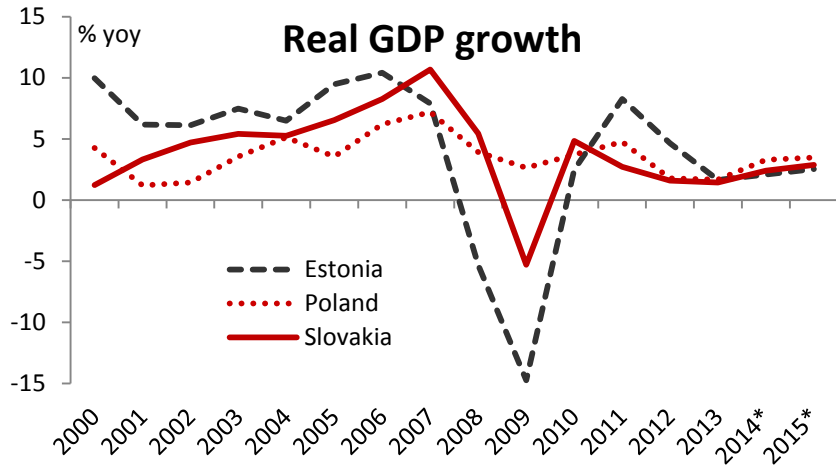
because of:

- Strong economic performance
- 3 different rationales for PFM reform

Structure of presentation:

- Discussion of economic / fiscal performance
- PFM reform story: country-by-country
- Conclusions

# Economic & Fiscal Performance SVK / EE / PL (1)



Source: IMF, \*Estimate/Forecast

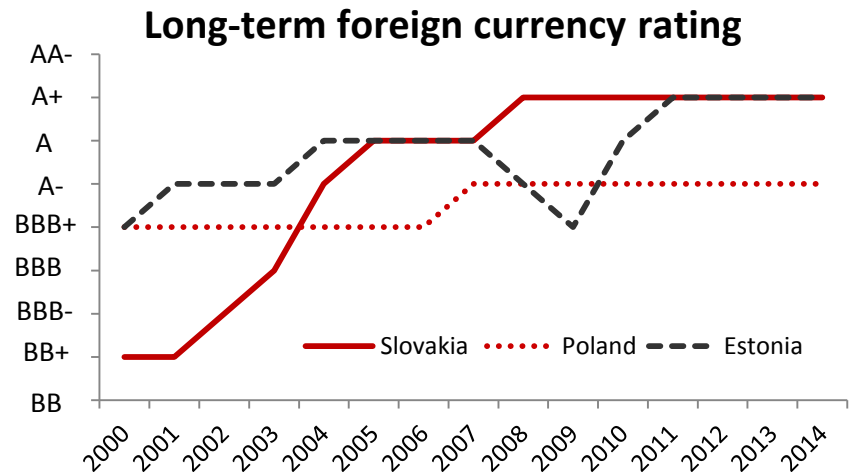
GDP growth:

POL – managed to avoid recession

Ratings:

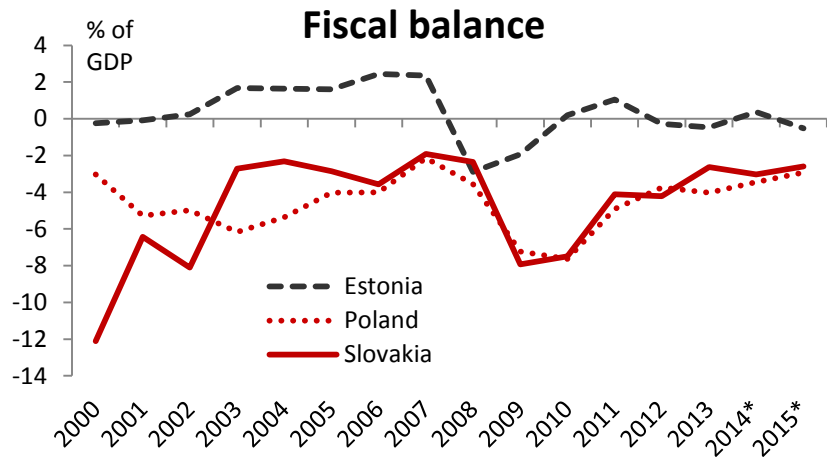
EE – fast recovery after crisis 2008/09

SVK – steady improvement



Source: Fitch Ratings

# Economic & Fiscal Performance SVK / EE / PL (2)



Source: IMF, \*Estimate/Forecast

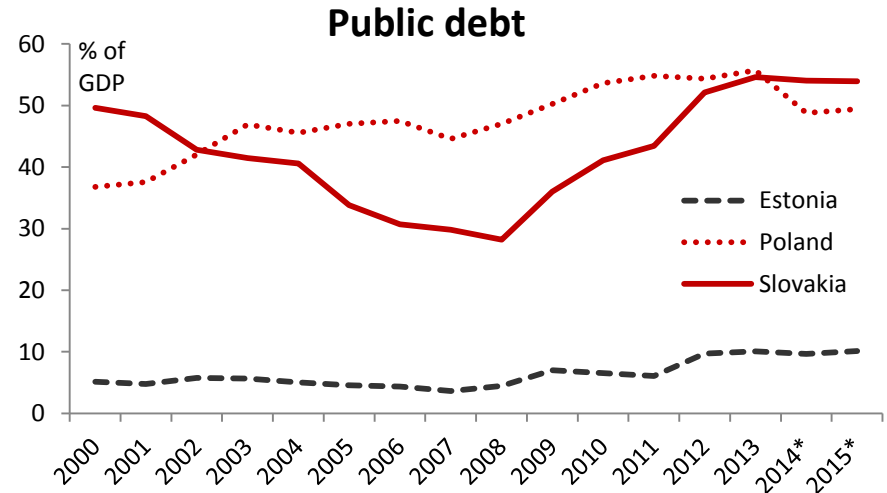
## Fiscal balance:

EE – almost stable balanced budget  
 POL, SVK – trend towards balanced budget

## Public debt:

EE – < 10% GDP, stable

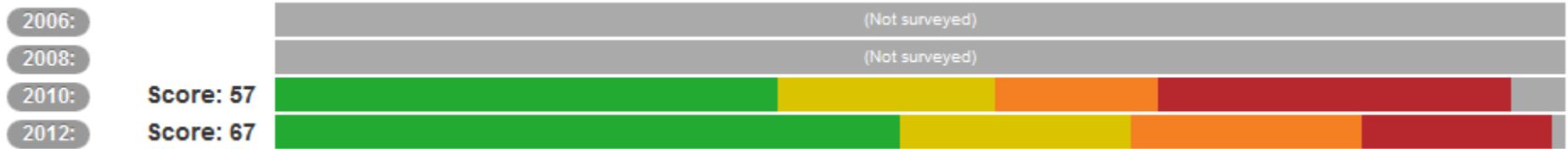
EE, POL, SVK – below Maastricht criteria



Source: IMF, \*Estimate/Forecast

# Fiscal Transparency (Open Budget Index) SVK / PL

## Open Budget Survey: Slovakia



## Open Budget Survey: Poland



### Fiscal transparency (OBI):

SVK – improving  
 POL – downgrading!  
 (EE – not covered)

#### Legend:

The Open Budget Index assesses budget transparency, participation, and oversight by assessing 95 individual parameters. Each parameter is evaluated as “a” (requirements fully met – indicated in **green** in the charts above) or “b” (good practice – **yellow**), “c” (minimal efforts to attain the relevant standard -, **orange**), or “d” (standard are not met at all – **red**). An “e” – **grey** - response indicates that the standard is not applicable. The Open Budget Index (OBI) is a simple average of the quantified responses for the 95 Survey questions. The OBI assigns each country a **score that can range from 0 (no fiscal transparency) to 100 (total fiscal transparency)**.

## 2. Case Study: Slovakia – PFM reform (1) –



- ✓ Started 2000; Program-budgeting (central government) as of 2004; 1st mid-term budget in 2005
- ✓ Objectives:
  - Liberalisation of the economy and welfare state and improve business climate
  - Reduce deficit and secure long-term sustainability of public finances
- ✓ PFM reform elements:
  - Improve reporting & transparency of public finance
  - Introduce Program budgeting and mid-term budget framework
  - Improve economic and fiscal forecasting and prognosis
- ✓ ... together with:
  - Tax- / Pension- / Health Care- / Labour Market-, and Public Administration reform

## 2. Case Study: Slovakia – PFM reform (2) –



### ✓ Key Actors:

- MoF: key driver of reform & responsible for safeguarding sound PFM (i.e., fiscal policy but no micro-management of the budget)
- Coordination of reform: high-level steering committee (Deputy Minister level), Coordination unit for day-to-day business

### ✓ Results:

- Fiscal policy (credibility and predictability) has improved
- Implementation of program-based budgeting (PBB) and mid-term budget framework (MTBF) of varying quality in individual line ministries
- Slovakia managed to steer well through recent crisis; currently deficit target -0.5% GDP
- *Caveat*: social hardships caused government elected 2006 to steer back some reforms, esp. in social sector

Sources: Miklos; Marusinec; National Reform Programme 2014





### 3. Case Study: Estonia – PFM reform (1) –

- ✓ PFM reform part of broader government reform; started 1999; since 2003 budget process based on strategic planning process
  
- ✓ Objectives:
  - Balanced budget and low debt ratio
  - Government priority: strongly liberal, i.e., favourable business conditions higher on priority list than redistribution
  
- ✓ PFM reform elements:
  - Strengthening the performance base of planning [note: full-scale PBB piloting as of 2016];
  - turning reporting into a management instrument and linking it closely with planning;
  - making the medium-term planning framework more stable;
  - developing accountability mechanisms, strengthening internal control, developing internal audit



### 3. Case Study: Estonia – PFM reform (2) –

#### ✓ Key Actors:

- Prime Minister's Office – Estonia is a showcase example for strong policy orientation of budget, and PFM reform in broader sense
- MoF: Coordination, Methodology, Quality Control

#### ✓ Results:

- Lowest deficit; lowest debt ratio (< 10% GDP) amongst CEE countries
- Dynamic, innovation-driven economy, low corruption rates, e-government
- Quick recovery after crisis 2008/09

Sources: OECD 2008; OECD 2011; OECD 2015; Raudla/Kattel 2011

## 4. Case Study: Poland – PFM reform (1) –

- ✓ Started 2006; Program-budgeting as of 2013; MTEF not yet introduced
  - ✓ Objectives:
    - Increase efficiency and effectiveness, transparency, accountability of PFM
  - ✓ PFM reform elements:
    - New PFM Law (2009), which provides for:
      - Consolidation / re-structuring of budgetary units
      - Program-budgeting
      - MTEF
- ... PFM reform in Poland was not part of a broader reform agenda

## 4. Case Study: Poland – PFM reform (2) –

### ✓ Key Actors:

- Office of the Prime Minister, driven by a committed individual („reform champion“), took first initiative in 2006
- MoF took over 2008 (two Departments for Public Finance Reform (PBB) and State Budget Dept)
- NIK (Polish Supreme Audit Institution): promote & implement performance audits

### ✓ Results:

- Managed well through crisis – but which role did PFM system play in this..?
- PBB does not seem to have been accepted as management tool to increase effectiveness & efficiency of public expenditure
- *Is this because introducing PBB perceived more as a formal exercise to comply with external (EU) requirements?*

Sources: OECD 2011; World Bank 2009

## 5. Conclusions (1)

### Reforms take time

- ✓ PFM reform (PBB, MTEF, etc.) is not a short term fix to ease / avoid economic difficulties - but it can help to withstand difficult times
- ✓ PFM reform is a lengthy exercise - prioritisation / sequencing is important

### Reforms need to be comprehensive

- ✓ PFM reform' must not be limited to technical aspects (formal introduction of PBB, MTEF, FMIS) - but needs to be embedded in reform agenda
- ✓ Including reform in areas where “the real money is” (i.e. tax reform, pension / social security system), and public administration reform beyond the boundaries of the MoF

## 5. Conclusions (2)

Reform coordination and ownership is important

- ✓ Coordination and ownership of reform needs to be at highest level; MoF must not be “left alone” with this

Reform needs to address full budget cycle, incl. reporting and monitoring

- ✓ Monitoring of (past) performance is important to utilise (future) expenditure effectively

Reform can not be copied – but lessons can be learnt

- ✓ Plenty of experience & lessons learnt to draw on for Belarus - but no blueprint!

## Contact

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