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Public debt transparency as part of fiscal transparency:

- Good practices and reviews for Macedonia

Authors:
Vesna Garvanlieva Andonova
Marjan Nikolov

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INTRODUCTION

Why fiscal transparency and transparency of public debt data?

Fiscal transparency covers the comprehensiveness, clarity, reliability, timeliness, and relevance of public reporting on the past, present, and future state of public finances is critical for effective fiscal management and accountability. Fiscal transparency has been consistently identified as a key feature of efficient fiscal policy and a prerequisite for good public governance. It helps ensure that governments have an accurate picture of their finances when making economic decisions, including of the costs and benefits of policy changes and potential risks to public finances. It also provides legislatures, markets, and citizens with the information they need to hold governments accountable.

Greater fiscal transparency can also help strengthen the credibility of a country's fiscal plans and can help underpin market confidence and market perceptions of fiscal solvency. As part of the fiscal transparency is the coverage of transparency of the public debt data. Accurate and comprehensive debt data are a corner stone in sound borrowing and lending practices.

These are crucial for different stakeholders[1] within the society and the society as a whole:

1) For the ***policy makers*** to make informed and suitable borrowing decisions, in order to maintain debt sustainability and macroeconomic stability.
2) ***Creditors, donors, analysts, and rating agencies***, require the debt data to make assessment of the financing needs and creditworthiness, and to appropriately price the debt instruments.
3) Last but not least, the ***public*** requires this information to hold the government accountable on its fiscal policies and decisions and to enable ***citizens'*** participation in active governance, and potentially reduce and safeguard against corruption.

It is the country authorities that have the primary responsibility to report transparently on the debt data, however also international financial institutions and non-profit international organizations play as significant role in supporting, informing and monitoring transparency and sustainability on lending practices. These are, among others the IMF and the World Bank which collect and disseminate debt statistics; produce analyses of public debt; support countries' efforts for enhanced debt management strategies; publish information on countries' borrowing capacity; and directly liaise with creditors, etc. all with the aim for improved transparency, debt management and support to both borrowers and lenders in their decision making[2]. International and multi stakeholder initiatives such as the International Budget Partnership (IBP) and the Global Initiative for Fiscal transparency (GIFT) are dedicated in their efforts to research, inform, support, assess, advocate for implementation of more ambitious budget and fiscal transparency commitments.

This brief covers a review of several of the internationally accepted good practices for fiscal transparency, focusing on the public debt and notes on the findings and the assessments for Macedonia concerning fiscal transparency with focus on public debt and offers recommendations based on these for enhanced public debt transparency of the country.

[1] G-20 note: strengthening public debt transparency– the role of the IMF and the World Bank, available at: http://documents.worldbank.org/curated/en/991171532695036951/pdf/128725-repl-For-VP-G-20-NOTE-STRENGTHENING-PUBLIC-DEBT-TRANSPARENCY-clean.pdf

[2] ibid. Available at: https://www.imf.org/external/np/g20/pdf/2018/072718.pdf

1. INTERNATIONAL GOOD PRACTICES IN FISCAL TRANSPARENCY AND PUBLIC DEBT

There are number of guidelines covering international good practices and recommendations for improved fiscal transparency which cover public debt transparency as the public debt is directly related to the budget deficit, as two sides of the same coin. The public debt is a set of borrowings made by the state to achieve certain set budgetary goals. The public debt is directly related to the budget deficit (over time), as the state increases the public debt (indebtness at certain time) when the budget deficit appears. The ability of the state to repay the debt depends on the market conditions and key economic variable trends including the inflation, interest rates, exchange rates, the budget incomes and expenditures, the current payment balance of payments.

The international guidelines among other are covered by:

1) ***Guidelines for Public Debt Management of the IMF and WB***
2) ***The Fiscal Transparency Code, IMF***
3) ***The OECD Best Practices for Budget Transparency***
4) ***High-Level Principles on Fiscal Transparency, Participation, and Accountability, Global Initiative on Fiscal Transparency (GIFT), endorsed by the United Nations General Assembly (UNGA)***

The fiscal transparency is also measured / assessed internationally in order to promote further transparency and accountability as well as to contribute to comparability among countries, through

1) International Budget Partnership, Open Budget Index (OBI)
2) Fiscal Transparency Evaluation, IMF's Fiscal Code

Figure 1: Summary of Main Fiscal Transparency Instruments

Instrument name	Scope	Content	Coverage	Graduated	Assessment	Remarks
1. *Code of Good Practices on Fiscal Transparency* IMF, 1998, revised 2007 http://www.imf.org/external/np/fad/trans/index.htm	Budgets, forecasts, and reporting; all fiscal activities; focus on central government, but also covers general government and public sector	45 good practices in 4 pillars: (i) clarity of roles; (ii) open budget processes; (iii) public availability of information; and (iv) assurances of integrity.	Covers all 187 member countries	No (current review intended to introduce graduated approach)	Fiscal ROSC by IMF staff on request of government. Publication is voluntary, on IMF Web site. Detailed staff description, diagnosis, and recommendations. Few ROSCs completed in recent years.	The code and ROSCs are being revised in 2013.
2. *Open Budget Survey and Open Budget Index* International Budget Partnership *http://internationalbudget.org/what-we-do/major-ibp-initiatives/open-budget-initiative/*	Budgets, forecasts, and reporting; central government; budget sector	OBI based on availability and content of eight key documents over complete budget cycle. OBS also includes legislative oversight and public engagement.	Country coverage: 2006: 59 2008: 85 2010: 94 2012: 100	Yes (4-level ordinal scale)	OBS completed by independent civil society researchers in each country; surveys published on IBP Web site. Quantitative cross-country data (the OBI); used as basis for recommending reforms. Increasing use by donors and others, for example, Open Government Partnership.	Consideration being given to an "OBI-Plus" to better cover off-budget activities and SOEs.
3. *Government Finance Statistics Manual 2001* IMF http://www.imf.org/external/pubs/ft/gfs/manual/index.htm	Reporting only; general government (and public sector)	An accrual standard for government fiscal statistics as part of the national accounts.	Applies to all 187 IMF member countries	No	Some aspects assessed by IMF staff as part of Data ROSC, and some as part of Fiscal ROSC, for example, definition of sectors, revenue and expenditure classifications, and fiscal balance definitions.	Being revised in 2013 to make compatible with System of National Accounts 2008.
4. *International Public Sector Accounting Standards* International Public Sector Accounting Standards Board *http://www.ifac.org/public-sector*	Reporting only; general purpose financial statements of public sector entities and controlled entities; does not cover business enterprises	Thirty-two accrual basis IPSASs, and one cash basis IPSAS as of March 2013.	Intended to cover all governments at national and subnational levels	Yes (pass/fail)	By accountants and auditors in each country. Audited financial statements are published.	Published medium-term work program of standards development, including a conceptual framework, and convergence with GFSM as feasible.
5. *High-Level Principles on Fiscal Transparency, Participation and Accountability 2012* GIFT www.fiscaltransparency.net	Budgets, forecasts, and reporting; general government and public sector; public rights to fiscal information and to direct participation.	Ten high-level principles covering access to information and the governance of fiscal policy.	Intended to cover all government	No	None. The GIFT work program includes promoting greater coherence in norms, filling gaps in existing norms (for example, on public participation, and legislative oversight) and strengthening assessment practices, including through mutual recognition.	Endorsed by UNGA in December 2012. Intended to sit above existing set of normative instruments and to promote improvements in their coverage, consistency and coherence.

Source: Taken from World Bank's, The Current State of Fiscal Transparency: Norms, Assessment, and Country Practices, as of 2013

1.1. GUIDELINES (REVISED) FOR PUBLIC DEBT MANAGEMENT OF THE IMF AND WB

Revised Guidelines for Public Debt Management of the IMF and WB (as of April 2014, revising the March 2001, Amendments of 2003)) has been a response of the financial crisis, which have significantly affected the general financial landscape by a greater volume of public debt issuances, unprecedented cross border capital flows in search of higher yields, and higher volatility of investor risk appetite.

As a consequence, many countries have experienced significant shifts in their debt portfolios, in terms of both size and composition. The guidelines are mainly intended to assist policymakers by disseminating sound practices adopted by member countries in the design of a debt management strategy, its implementation, and operations.

It is unquestionable and resolved question of the utmost importance of high quality public debt management process of establishing and executing a strategy for ***managing the government's debt in order to raise the required amount of funding at the lowest possible cost over the medium to long run, consistent with a prudent degree of risk.***

One of the aspects of good public debt management (as is of good governance in general) is transparency and accountability of public debt. According to the IMF Guidelines these cover:

Figure 2: Excerpt of Guidelines for PFM, IMF

> ***Transparency and Accountability***
>
> *2.1 Clarity of roles, responsibilities, and objectives of government institutions responsible for debt management*
>
> *The allocation of responsibilities among the ministry of finance, the central bank, or a separate debt management agency, for debt management policy advice and for undertaking primary debt issues, secondary market arrangements, depository facilities, and clearing and settlement arrangements for trade in government securities should be publicly disclosed.*
>
> *The objectives for debt management should be clearly defined and publicly disclosed, and the measures of cost and risk that are adopted should be explained.*
>
> *2.2 Public availability of information on the reporting of debt management strategies and operations*
>
> *Materially important aspects of debt management operations should be publicly disclosed.*
>
> *Easy public access to the documentation describing the legal basis for debt management policy and operations should be ensured.*
>
> *The legislature and the public should be informed, through an annual report, on the context in which debt management operates and on the outcomes of the debt management strategy.*
>
> *The debt manager/government should regularly publish information on the outstanding stock and composition of its debt liabilities and financial assets, and, where they exist, contingent liabilities, including their currency denomination, maturity, and interest rate structure.*
>
> *If debt management operations include derivatives, the rationale for their use should be disclosed, and aggregate statistics on the derivatives portfolio should be published periodically, conforming to recognized accounting practices. The government is likely to benefit from a function within the debt management office that deals regularly with the main debt stakeholders and produces investor-friendly reports with debt statistics and other relevant information.*
>
> *2.3 Accountability and assurances of integrity by agencies responsible for debt management*

Debt management activities should be audited annually by external auditors. Information technology (IT) systems and risk control procedures should also be subject to external audits. In addition, there should be regular internal audits of debt management activities, and of systems and control procedures[3].

Source: Taken from Revised Guidelines for Public Debt Management, IMF Policy Paper, IMF, April 2014

1.2. THE FISCAL TRANSPARENCY CODE - IMF

The Fiscal Transparency Code[4] framework is based on four general principles that aim to capture the essential elements of fiscal transparency: clarity of roles and responsibilities; public availability of information; openness of the budget preparation, execution and reporting; and independent assurances of Integrity.

These are covered by the dimensions: Dimension 1) Fiscal reporting under the principle: Fiscal reports should provide a comprehensive, relevant, timely, and reliable overview of the government's financial position and performance Dimension 2) Fiscal Forecasting and budgeting, within the principle Budgets and their underlying fiscal forecasts should provide a clear statement of the government's budgetary objectives and policy intentions, and comprehensive, timely, and credible projections of the evolution of the public finances Dimension 3) Fiscal Risk Analysis and Management, principle Governments should disclose, analyze, and manage risks to the public finances and ensure effective coordination of fiscal decision-making across the public sector. Under the code it ranks the practices in a series of sub dimensions as: ***basic, good and advanced.***

When debt is concerned, in the Fiscal Transparency Code through the coverage of the Fiscal Reporting in coverage of stocks it is a basic level of transparency to have all debt reported in a cash based reporting; in quality aspects the advanced degree is when Fiscal reports include all three of the following reconciliations: (i) fiscal balance and financing; (ii) debt issued and debt holdings; and (iii) financing and the change in the debt stock. In the Risk management dimension, under asset and liability management it is at least basic level when: All borrowing is authorized by law and the risks surrounding the government's debt holdings are analyzed and disclosed

IMF's report on Macedonia as of October 2018, Fiscal transparency Evaluation, assesses the fiscal transparency of Macedonia against the IMF's Fiscal Transparency Code, and finds that some elements of good practice are in place and Macedonia meets the standard of good or advanced practice on 13 of the 36 principles, and the basic standard on a further 12 principles. Moreover, in 5 of the areas where Macedonia's transparency practices do not currently meet basic practice, this could be addressed by publishing data that are already collected for internal management purposes[5].

Areas of <u>strengths</u> include:

- Publication of extensive and timely in-year reports on budget execution for central and local budgetary units, on an economic and administrative basis, as well as for the three social security funds;
- Presentation of medium-term macroeconomic and fiscal projections in budget documentation, combined with a clear legal framework for budget formulation, and timely submission of the draft budget to the National Assembly;

[3] Revised Guidelines for Public Debt Management, IMF Policy Paper, IMF, April 2014, Available at: https://www.imf.org/external/np/pp/eng/2014/040114.pdf
[4] The Fiscal Transparency Code, IMF, Available at: https://blog-pfm.imf.org/files/ft-code.pdf
[5] Former Yugoslav Republic of Macedonia: Fiscal Transparency Evaluation, Available at: https://www.imf.org/en/Publications/CR/Issues/2018/10/29/Former-Yugoslav-Republic-of-Macedonia-Fiscal-Transparency-Evaluation-46317

- Publication of information on several risks to the public finances, including detailed analysis of the impact of alternative macroeconomic scenarios and, ***extensive disclosure of public debt and explicit guarantees, accompanied by sound frameworks for their management.***

At the same time, this evaluation highlights several areas where Macedonia's fiscal transparency practices ***could be improved***:

- While fiscal reports and statistics cover the bulk of general government activity (90 percent), they exclude some public units (with net expenditures of around 3 percent of GDP), that should be classified as extra-budgetary units in accordance with international standards;
- Although comprehensive data is published on general government debt obligations, fiscal reports do not include information on ***other liabilities or financial assets*** and there is no reporting on revenues forgone from tax expenditures;
- The State Audit Office does not offer an opinion on whether the government's annual budget report fairly represent public finances, with the annual audit largely compliance based and focused only on the execution of the central government's core budget;
- Differences in key fiscal aggregates between fiscal and statistical reports are not explained, and ***no report explains how the change in the government's debt can be reconciled with the budget deficit,*** which is important given that in some years, there have been material changes in the ***debt stock that have arisen from factors other than deficit financing needs;***
- Although the budget includes most general government revenues and expenditures, it excludes the share of tax revenues levied by the government and allocated to the Public Enterprise for State Roads (0.7 percent of GDP) and taxes on banks to meet potential deposit insurance claims (0.2 percent of GDP);
- Despite efforts to enhance the policy orientation of the budget, the budget remains largely input-based, and credibility is hampered by limited reporting on performance against fiscal objectives and the absence of reconciliation of differences between successive fiscal plans;
- While the budget presents three-year costs for public investment projects, their total costs are not disclosed and there is no requirement to conduct or publish cost-benefit analyses for projects financed domestically or through bilateral loans;
- Information on the most important sources of fiscal risks are presented in different documents, but no report provides a comprehensive picture of the range of risks that public finances are exposed to; and
- There is limited central oversight of public-private partnerships and concessions and limited central monitoring of public corporation performance.

Based on these findings, the evaluation provides several ***recommendations*** to enhance fiscal transparency in Macedonia. Specifically, it recommends that the authorities:

- Expand the institutional coverage of fiscal and statistical reports, to include the activities of all institutional units that would be classified as part of the general government under international statistical standards;
- ***Enhance the quality of fiscal reporting, by: publishing data on government assets and financial liabilities; reconciling changes in the stock of debt and budget deficits; and explaining differences in fiscal aggregates between statistical and fiscal reports;***
- Publish regular information on estimates of revenues forgone from tax expenditures; • Expand the coverage of the audit of the annual budget report by requiring audit of the entire budget including own source revenue, loans and grants and expanding the number of financial audits of entities undertaken by the State Audit Office;
- Improve the comprehensiveness of the budget by including those tax revenues allocated to the Public Enterprise for State Roads and Deposit Insurance Fund and their associated transfers, and presenting complete information on the own revenues and expenditures of all extra-budgetary funds in summary tables of consolidated fiscal aggregates;

- Strengthen budget credibility and transparency by presenting multi-annual expenditure plans by administrative unit; reconciling changes in fiscal aggregates between successive fiscal forecasts, and encouraging independent evaluation of fiscal forecasts;
- Enhance the policy orientation of the budget by regularly reporting on compliance with medium-term fiscal objectives and enhancing reporting against performance indicators for key policy areas;
- Publish the total costs of investment projects and develop and publish methodological guidelines for the appraisal of large projects along with their assessments;
- Improve fiscal risk disclosure, by publishing a summary fiscal risks report that details all material risks to public finances, their magnitudes, and strategies for their management; ***and publishing long-term public debt projections; and***
- ***Strengthen monitoring and oversight of fiscal risks arising from public private partnerships and public corporations[6].***

[6] Former Yugoslav Republic of Macedonia: Fiscal Transparency Evaluation, Available at: https://www.imf.org/en/Publications/CR/Issues/2018/10/29/Former-Yugoslav-Republic-of-Macedonia-Fiscal-Transparency-Evaluation-46317

Figure 3: Excerpts of the Summary Evaluation of Macedonia according to the Fiscal Transparency Code, as of 2018

Table 1.4. Macedonia: Summary Evaluation: Fiscal Reporting

	Principle	Assessment	Importance	Recs
1.1.1	Coverage of Institutions	**Basic**: Fiscal reports cover most general government units, but exclude some extrabudgetary units that should be classified within that sector under international standards.	**High**: Revenues and expenditures related to activities of extrabudgetary units are not included in general government fiscal reports, resulting in an understatement of expenditures and the budget deficit of 3 and 1.3 percent of GDP respectively in 2016.	1.1
1.1.2	Coverage of Stocks	**Not Met**: The government publishes detailed information on public sector debt liabilities, but no information is provided on other accounts payable, financial or nonfinancial assets.	**Medium**: Unreported public sector liabilities of around 31 percent of GDP and assets of 107 percent of GDP.	1.2
1.1.3	Coverage of Flows	**Basic**: Fiscal reports cover cash revenues, expenditures, and financing.	**Medium**: Cash recording potentially understates expenditures and prevents a fuller understanding of accounts receivable and payables.	1.1
1.1.4	Coverage of Tax Expenditures	**Not Met**: Revenues foregone from tax expenditures are not reported.	**Medium**: Several tax exemptions exist, with uncertainty about their size.	1.3
1.2.1	Frequency of In-Year Reporting	**Advanced**: Monthly central government execution reports are published within one month of the end of the period.	**Medium**: Expenditure outturns have deviated by around 2 percent of GDP on average from the original budget.	
1.2.2	Timeliness of Annual Financial Statements	**Advanced**: Cash based annual budget execution reports are published before or around the end of June the following year, together with the audit report.	**Medium**: Annual execution reports do not include information on stocks. Central government arrears were estimated at 1 percent of GDP in 2017.	
1.3.1	Classification	**Advanced**: Fiscal reports include administrative, functional and economic classifications broadly consistent with international standards, as well as some program information.	**Low**: Extensive information is provided on the use of public funds, but program information is not clearly linked to policy objectives.	
1.3.2	Internal Consistency	**Basic**: Fiscal reports include only one reconciliation of the budget balance and financing.	**Medium**: Annual differences between changes in the debt stock and budget financing has averaged around 0.8 percent of GDP in absolute terms.	1.2
1.3.3	Historical Revisions	**Not met**: Fiscal statistics are not revised.	**Low**: The priority is to prepare robust fiscal statistics.	
1.4.1	Statistical Integrity	**Basic**: Fiscal statistics are disseminated broadly in accordance with international standards.	**Low**: Although there are no independent checks on fiscal statistics, they are still being improved.	
1.4.2	External Audit	**Basic**: An independent supreme audit institution publishes an opinion report on implementation of the budget, based on a limited audit sample of entities.	**High**: Only about 10 percent of public sector institutions were subject to audit in 2016. Of these audits, only 19 percent received an unqualified opinion.	1.4
1.4.3	Comparability of Fiscal Data	**Basic:** Budget execution reports are prepared on the same basis as the annual budget. Differences between fiscal reports and GFS are not explained.	**Medium**: Revenues and expenditures in fiscal and statistical reports differ by 5 percent, but differences in the deficit are low.	1.2

Table 2.4. Macedonia: Summary Evaluation: Fiscal Forecasting and Budgeting

	Principle	Assessment	Importance	Rec
2.1.1	Budget Unity	**Not met:** The budget reports most revenues and spending of central government units on a gross basis, but excludes taxes allocated to the PESR and DIF.	**High:** The exclusion of taxes redirected to the PESR and DIF understates central government revenues and expenditures by 0.9 percent of GDP.	2.1
2.1.2	Macroeconomic Forecasts	**Advanced:** Budget documentation includes medium-term macroeconomic projections, their components and underlying assumptions.	**Medium:** Real GDP forecasts for the budget year have been, on average, overestimated by 1.9 percent (in absolute terms), which is slightly more than the EU average.	
2.1.3	Medium-Term Budget Framework	**Good:** Budget documentation includes medium-term fiscal projections of revenues, expenditures and financing by economic category.	**Medium:** Revenue and expenditures have been overestimated by an average of 2.2 and 2.1 percent of GDP in the budget year, but deficit forecast errors have been low.	2.2
2.1.4	Investment Projects	**Basic:** All major projects are subject to open and competitive tender, but total costs of individual projects are not regularly disclosed, and cost-benefit analyses are not published.	**High:** Public investment was 5.8 percent of GDP in 2016 and there has been large under-execution (38 percent annual average).	2.4
2.2.1	Fiscal Legislation	**Advanced:** The Budget Law defines the timetable for budget formulation, its content and the legislature's powers to amend it.	**Low:** While the core content of budget documents is included in the legislation, there is scope to expand the requirements further.	
2.2.2	Timeliness of Budget Documents	**Good:** The budget is regularly submitted 2 months before the start of the financial year and approved by Parliament before the start of the year.	**Medium:** FSR has been published with delay, limiting its effectiveness and the capacity of the legislature and public to scrutinize information.	
2.3.1	Fiscal Policy Objectives	**Basic:** The FSR defines a numerical limit for public debt, but this is not time-bound.	**Medium:** There is limited assessment of fiscal policy in budget documents, but fiscal targets are generally met.	2.3
2.3.2	Performance Information	**Basic:** Budget documentation includes input allocation by policy areas.	**Medium:** Lack of clear linkages between policy objectives defined for each institution and programs.	2.3
2.3.3	Public Participation	**Good:** A Citizen's Budget is published, and major stakeholders are consulted as part of the budget deliberation process.	**Low:** Budget documentation is complex, comprising more than 600 pages, but is summarized and discussed with stakeholders.	
2.4.1	Independent Evaluation	**Not met:** Fiscal forecasts are not compared to those of external institutions and there is no independent evaluation of them.	**Medium:** Fiscal forecasts present systematic errors, both on revenue and expenditure.	2.2
2.4.2	Supplementary Budget	**Good:** Changes to the level of budget expenditure require parliamentary approval.	**Low.** Supplementary budgets have reduced expenditure by 1.5 percent a year on average, since 2009.	
2.4.3	Forecast Reconciliation	**Not met:** Differences in revenue and expenditures from previous medium-term forecasts are not explained.	**High:** Absolute revisions to expenditure plans have average 7 percent a year from 2008.	2.2

Table 3.5. Macedonia: Summary Evaluation: Fiscal Risks

	Principle	Rating	Importance	Rec
3.1.1	Macroeconomic Risks	**Good:** The ERP includes macro-fiscal sensitivity and scenario analysis, but no probabilistic fan charts.	**High:** Volatility of growth in nominal GDP and revenue is 3.8 and 6.7 percentage points respectively.	
3.1.2	Specific Fiscal Risks	**Not Met**: No report summarizes specific fiscal risks, though relevant information is largely disclosed across various reports.	**High:** Specific fiscal risks are estimated to be in the order of 46 percent of GDP.	3.1
3.1.3	Long-term Fiscal Sustainability	**Basic:** Long-run fiscal projections are published annually in the ERP, but not for multiple macroeconomic or demographic scenarios.	**Medium:** A rapidly ageing population is estimated to increase the pension deficit by 10 percent of GDP.	3.1
3.2.1	Budgetary Contingencies	**Good:** The budget includes two contingency reserves for unexpected events with relatively clear criteria for its use.	**Low:** Use of the reserves amounts to less than 0.1 percent of expenditure.	
3.2.2	Asset and Liability Management	**Basic:** Borrowing is authorized by law and risks around debt are disclosed and analyzed. Information on some financial assets is disclosed and their risks analyzed.	**Medium:** General government liabilities and financial assets are 51.5 and 36.5 percent of GDP respectively.	
3.2.3	Guarantees	**Good:** The stock of guarantees by beneficiary are regularly disclosed and the FSR sets non-binding limits on their issuance.	**Medium:** Debt guarantees are 9 percent of GDP, but guarantee calls have been low at less than 0.03 percent of GDP a year on average.	
3.2.4	Public-Private Partnerships	**Not Met**: Government maintains a central registry of PPP contracts, but this does not include the total rights, obligations and exposures under the contracts.	**Medium:** 19 identified PPPs and concessions, with a total capital stock of 6.8 percent of GDP, but many do not have direct fiscal obligations.	3.2
3.2.5	Financial Sector Exposure	**Advanced:** Explicit obligations associated with deposit insurance are disclosed, and the NBRM publishes annual financial stability assessments which includes stress tests.	**Low:** Net exposure for insured deposits is 26.4 percent of GDP, but the banking system is well capitalized and has remained resilient to recent stresses.	
3.2.6	Natural Resources	**Not Met:** There is no annual estimate published of the value and volume of natural resources.	**Low:** Natural resource revenues are less than 0.2 percent of GDP.	
3.2.7	Environmental Risks	**Not Met**: The government does not discuss or quantify fiscal risks from natural or man-made disasters, but has strategies in place to manage these.	**Medium**: The average annual cost is moderate at 0.3 percent of GDP, but there have been large and costly disaster events.	3.1
3.3.1	Sub-national Governments	**Not Met**: Revenue and expenditures for individual municipalities is published quarterly, but no report discloses their debt or other liabilities.	**Medium:** Municipality spending and debt is low at 5 and 0.5 percent of GDP. But, arrears could add a further 0.8 percent of GDP to liabilities.	
3.3.2	Public Corporations	**Basic:** Transfers between PCs and the government and their guaranteed debt is published regularly, but there is no consolidated report on PC performance and no ownership policy in place.	**Medium:** PC debt is relatively modest at 9 percent of GDP, but almost all of it is backed by government guarantee, creating explicit exposure for government.	3.2

1.3. OECD BEST PRACTICES FOR BUDGET TRANSPARENCY

The OECD Best Practices for Budget Transparency is a reference tool for Member and nonmember countries to use in order to increase the degree of budget transparency organized around specific reports for presentational reasons. They focus is on the specific budget reports which in total are eight, including the disclosures including details on the financial labilities and assets directly linked with disclosure of public debt related data. Namely the best practices tools states:

Figure 4: Excerpt from OECD Best Practices for Budget Transparency

2.3. *Financial liabilities and financial assets*

- All financial liabilities and financial assets should be disclosed in the budget, the mid-year report, and the year-end report. Monthly borrowing activity should be disclosed in the monthly reports, or related documents.
- Borrowings should be classified by the currency denomination of the debt, the maturity profile of the debt, whether the debt carries a fixed or variable rate of interest, and whether it is callable.
- Financial assets should be classified by major type, including cash, marketable securities, investments in enterprises and loans advanced to other entities. Investments in enterprises should be listed individually. Loans advanced to other entities should be listed by major category reflecting their nature; historical information on defaults for each category should be disclosed where available. Financial assets should be valued at market value.
- Debt management instruments, such as forward contracts and swaps, should be disclosed.
- In the budget, a sensitivity analysis should be made showing what impact changes in interest rates and foreign exchange rates would have on financing costs.

Source: Taken from Transparency of public debt: statistics, operations and practices, Chapter 4, OECD Sovereign Borrowing Outlook, 2016

1.4. OPEN BUDGET INDEX[7]

The International Budget Partnership (IBP) has taken on the challenge of making public finance systems worldwide more transparent and accountable through its work in four interlinked areas that combine country-based civil society pressure with increased pressure from international institutions, together with efforts to generate effective advocacy for more open and responsive budgeting. These areas are:

- **Building organizations**: strengthening civil society organizations and networks by developing the skills and relationships needed to improve budget processes and create change in the countries where they operate.
- **Opening budgets**: researching, measuring, and monitoring budget transparency, participation, and accountability around the world to build an evidence base promoting greater openness.
- **Establishing global norms:** engaging with a wide-range of international stakeholders, including donors, government oversight institutions, and international NGOs, to play a greater role in budget issues.

[7] https://www.internationalbudget.org/open-budget-survey/

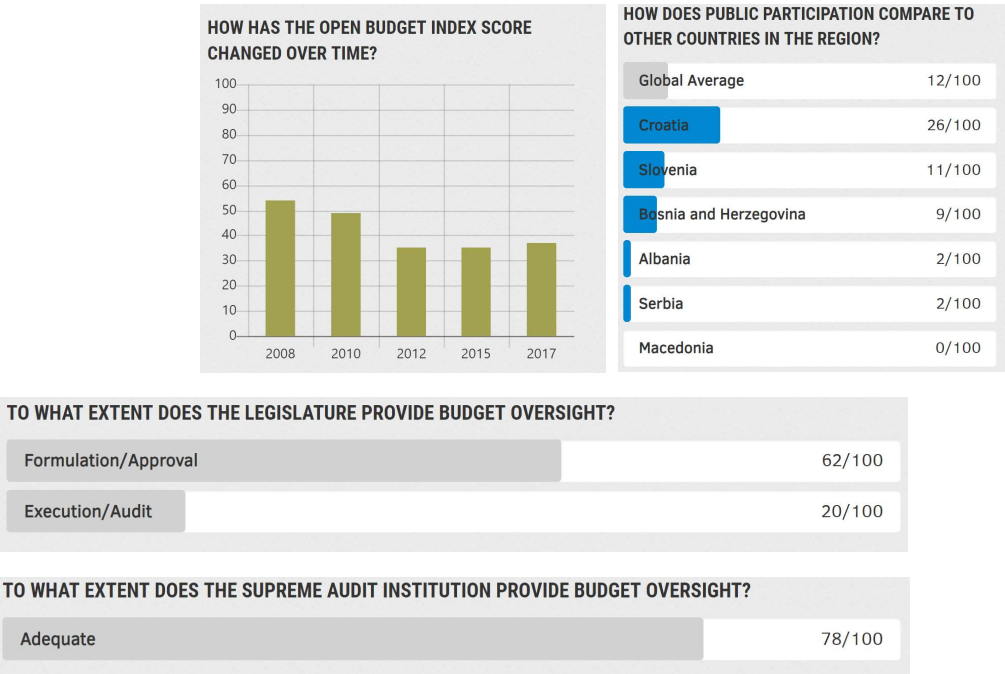
- **Learning what works**: producing rigorous evidence, analysis, and case studies on the impact of IBP and its partners to inform more strategic and effective practices.

The IBP conducts surveys for measuring/assessing the fiscal transparency in a comparable manner throughout many countries in the world through the biennial Open Budget Index (OBI). Since 2006, the Open Budget Survey (OBS) is the independent, comparative assessment of the three pillars of public budget accountability: transparency, oversight and public participation. The sixth round of this biennial assessment, the 2017 survey evaluated 115 countries across six continents.

THE OBI INDEX FOR MACEDONIA THROUGHOUT THE YEARS

According to the last official scorings and last survey as of 2017, concerning the first pillar of the OBI, Macedonia scored with 37 out of 100 points for Transparency, listing the country within those that provide "the public with **minimal** budget information". The second pillar concerning the participation Macedonia scores with 0 as a country where "the public with **no** opportunities to engage in the budget process" and as for the third pillar on oversight it scored with 56 out of 100 as a country where "The legislature and supreme audit institution in Macedonia provide **limited** oversight of the budget"

Figure 5: Excerpt of the 2017 OBI report on Macedonia



OPEN BUDGET SURVEY 2017[8] – PUBLIC DEBT:

Specifically for the public debt data transparency the budget survey provides an insight of the degree of transparency and at the same time provides an insight where there should be improvement covering the overall budget process and the budget cycle by the documents covered in the survey:

[8] Cutoff date for the scores OBI 2017 is 31.12.2016, the EBP is concerning 2017

- Executive Budget Proposal or any supporting budget documentation (should) present three estimates related to the government borrowing: the amount of net borrowing required during the budget year, the total debt outstanding at the end of the year; and interest payments on the debt for the budget year. (q13)
    - Two out of the three are provided, namely it is total debt outstanding that is missing in the executive budget proposal
- Executive Budget Proposal or any supporting budget documentation (should) present information related to the composition of the total debt outstanding at the end of the budget year? (interest rates on debt instruments, maturity profile of the debt and whether it is domestic or external debt) (q14)
    - The EBP presents some but excludes core elements, there is separation of the debt as domestic and external
- Executive Budget Proposal or any supporting budget documentation (should) show the impact of different macroeconomic assumptions (i.e. sensitivity analysis) on the budget? (the core information must include estimates of the impact on expenditures, revenue and debt of different assumptions for the real GDP growth and interest rates) (q16)
    - No information related to different macroeconomic assumptions are presented, as there is not sensitivity analysis to the EBP
- Does the Executive Budget Proposal or any supporting budget documentation (should) present the information on government borrowing and debt including composition for the year preceding the year (BY-1) (q31)
    - The EBP presents some but excludes core elements, there is separation of the debt as domestic and external and internal on past year's budget year
- In the EBP or any supporting budget documentation (should) what is the most recent year presented for which the debt figures reflect actual outcomes? (q32)
    - No actual data for government debt are presented
- Does the Pre-Budget statement present three estimated related to government borrowing and debt: the amount of net borrowing required during the budget year, the total debt outstanding at the end of the budget year; and interest payments on the debt for the budget year? (q57)
    - No, none, as at the concerning year the pre-budget statement was not presented on time
- Does the Enacted budget present three estimated related to government borrowing and debt: the amount of net borrowing required during the budget year, the total debt outstanding at the end of the budget year; and interest payments on the debt for the budget year? (q63)
    - Yes two out of three estimates are presented, net new borrowing, the interest payments on outstanding debt for the budget year
- Do In-Year reports present three estimated related to government borrowing and debt: the amount of net borrowing, the total debt outstanding; and interest payments? (q74)
    - Yes two out of three estimates are presented, net new borrowing, the interest payments
- Do In-Year reports present information related to the composition of the total actual debt outstanding? (the core information must include interest rates on the debt instrument, maturity profile of the debt and whether it is domestic or external debt) (q75)
    - Yes information are presented but excludes core elements, some of the information are presented dint eh annual debt report but not in the in-year reports
- Does the Mid-Year review of the budget include updated estimated of the government borrowing and debt, including its composition for the budget year underway? (q83)
    - No, estimated of the government borrowing and debt have not been updated, at the period there hasn't been report on the mid-year assumption changes
- Does the Year-End Report present the difference between the original estimated of the government borrowing and debt, including its composition, for the fiscal year and the actual outcome for that year? (q90)

    - Yes, estimated of the differences between some, not all original estimated of the government borrowing and debt of the fiscal year and the actual outcome for that year are presented
- During the budget formulation stage, which of the following key topics does the executive's engagement with citizens cover? (macroeconomic issues, revenue forecasts, policies and administration, social spending policies, deficit and debt levels, public investment projects, public services) (q127)
    - No engagement of the executive with the citizens on any of the six topics, as no mechanisms for engagement exist
- During the implementation of the annual budget which of the following topics does the executive's engagement with the citizens cover? (key topics considered are: change in the macroeconomic circumstances, delivery of public services, collection of revenues, implementation of social spending, changes in deficits and debt levels, implementation of public investment projects) (q130)
    - No engagement of the executive with the citizens on any of the six topics

The answers presented on the last OBI survey indicate areas where the fiscal transparency concerning public debt can be improved, primarily through presentation in the gross, net, debt and debt service, structure of debt, outcome vs. plans, throughout the budget process and budget cycle, improve and present sensitivity analysis and enhance participation of citizens throughout the budget process and budget cycle.

2. THERE IS SPACE FOR IMPROVEMENT OF PUBLIC DEBT TRANSPARENCY - RECOMMENDATIONS

- Improve functionality and structure of the website of the Ministry of Finance as currently the visitor cannot easily find what one needs;

- Improve legislation on coverage of debt by including and reporting on the guaranteed and non-guaranteed debt, as well as contingent labilities both explicit and non-explicit (e.g. arrears of the local governments has shown in the past to be a considerable hidden debt that posed obstacles, as the MoF systems did not capture LGU expenditure arrears, or amounts guaranteed by LGUs for investments by local utility or other companies they control. The LGUs submit annual financial statements to the Central Registry in the same way as other public and private sector institutions, but the information is not consolidated. The anecdotal evidence of significant amounts – well in excess of total published borrowing by LGUs – owed to contractors, and it is understood that the Treasury accounts of a number of LGUs have in effect been frozen, has proven as correct, leading to the 2018 Law on Financial Support to Local Government and Spending Units Established by Local Government, for servicing arrear, costing the budget around 50 mill EUR), as there is an absence of a consolidated overview of the current liabilities of LGUs;

- Include and provide structured information on the guaranteed and the non-guaranteed debt and per specific budget users that has incurred the debt; report the debt of SOE, provide information on the assessments of the guarantees;
- Provide detailed public debt by structure (creditors, banks, financial institutions; domestic vs. foreign, loans, bonds, derivatives, maturity per instrument, interest structure, etc. long term vs. short term, debt service, gross vs. net debt, etc.);

- Report in more details by debtor both on central level, local level and guaranteed and non-guaranteed debt;

- Presentation of the debt per instrument and with characteristic of debt by maturity, interest, conditions etc.;

- Prepare, publish, report on a strategy that is specific / stand alone to public debt management and provide regular monthly reporting on the execution with explanations on the differences and reasons for changes, scrutiny over execution and quality of debt strategy; (last prepared and published mid-term debt strategy for the period 2010-2012);

- The report on public debt annually is the sole document that comprehensively provides a situation on the structure (Historically there was a semi-annual and quarterly narrative reports on public debt however not prepared since 2010);

- Reconcile differences between public debt reported by the MoF and NBRM;

- Consider setting a regulation on debt break (constitution amendments towards setting a debt break of 60% debt of GDP and an annual limit of 3% of GDP as deficit, were proposed and never enacted).

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