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# **TEN YEARS OF BUDGET REVIEWS IN CESEE COUNTRIES**

**THE DUTCH MINISTRY  
OF FINANCE, THE HAGUE**

**THE OECD PUBLIC GOVERNANCE AND  
TERRITORIAL DEVELOPMENT  
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**THE CENTER OF EXCELLENCE  
IN FINANCE (CEF), LJUBLJANA**

**PROJECT REPORT**

**TEN YEARS OF BUDGET REVIEWS IN  
CESEE COUNTRIES**

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## Introduction<sup>1</sup>

The ongoing financial and economic crisis has highlighted the importance of sound Public Financial Management (PFM) for the maintenance of a sustainable fiscal position, effective allocation of resources, and efficient service delivery. In this context, PFM institutions and fiscal transparency play a prominent role. The PFM agenda has evolved over the last two decades and includes topics such as medium-term budget frameworks (MTBF), fiscal rules, fiscal responsibility laws, fiscal councils, performance budgeting, fiscal reporting and accounting, and risk management techniques. Countries have followed different approaches in designing this agenda, depending on their institutional systems set up and implementation capacity.

From 2004 to 2012, the OECD Senior Budget Officials network for Central, Eastern and South-Eastern European countries (SBO CESEE) conducted “peer reviews” in fifteen of twenty-six countries of the network. Each review contained a detailed outline of the budget institutions of a country as well as assessments and recommendations for changes in all main stages of the budgeting process, i.e. budget formulation, parliamentary approval, budget execution, and audit and accountability. To mark the 10<sup>th</sup> anniversary of the OECD SBO CESEE, the Dutch Ministry of Finance and the OECD Public Governance and Territorial Development Directorate have commissioned an independent study that will (i) summarize the assessments and conclusions of the OECD reviews, (ii) identify similarities and differences between countries, (iii) analyze the latest developments in the countries in the field of PFM, and (iv) track whether the recommendations proposed in the OECD reviews have been implemented.

Therefore, the purpose of this study is to provide an overview and cross-country comparison of the OECD reports as well as an outline of the most important reforms in PFM institutions and in the field of fiscal transparency that have taken place since the OECD reports have been published. Thus study has two parts. In the first, the main findings of the assessment parts and suggestions from the recommendation parts of the reports are described and compared. To put OECD reviews in the perspective of the actual developments, as a part of the study, short survey of the PFM changes in the CESEE countries is also prepared. The second part of the study compares assessments of the PFM situation and corresponding recommendations with the budgeting process developments since the OECD reviews revealed in the survey.

For further and more detailed analysis of PFM activities in CESEE countries, it would be important to use available OECD Survey data from 2007 and to prepare a detailed survey for 2012 (or 2013), similar to that organized for OECD member countries. Such an approach would empower the analysis of effective quality of the PFM institutions in dealing with fiscal consolidation due the consequences of financial and economic crisis in 2009. Therefore, using a more comprehensive set of data and contact information with the SBO of CESEE countries would allow implementation of sophisticated statistical methodology and render meaningful comparative (in time and between countries) analytical results.

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1 The Authors - V. Bole, M. Gaspari and S. Maver, thanks Center of Excellence in Finance (CEF) for its technical and logistic support in preparing Survey and contacting all respective SBOs in CESEE countries to get responses.

Furthermore, an extension of a sample of countries would be recommended, simultaneously incorporating OECD and non-OECD CESEE countries. A study of similarities and differences between those two groups of countries in implementing PFM activities and institutions, based on adequate Surveys (mostly already available), would enable assessing how much the OECD best-practice standards are introduced and used in different countries with regard to the level of their economic development, institutional infrastructure and budget processes.

## 1. Methodology

Initial descriptive evidence of the PFM situation in the analysed CESEE countries is extracted from the reports on the country OECD peer reviews,<sup>2</sup> whereas information on the new developments since OECD reviews comes from the survey that was prepared as a part of this study. In OECD reviews, information on PFM situation in analysed countries can be divided into assessments of the situation and recommendations for improving the effectiveness and efficiency of the budgeting processes. In this study, three segments of evidence, i.e. from OECD reports assessments, recommendations and survey on PFM situation in CESEE countries are presented and compared. Comparisons are made cross-country, cross activities (institutions)<sup>3</sup> and cross segments of evidence. To make them more succinct, descriptive evidence is transformed, so that assessments, recommendations and survey facts are more clear-cut and, therefore, amenable for stylization and adequate statistical explanatory analysis.

The three-step procedure on transforming evidence is the same for all three segments of the evidence used; that is, for the evidence on the situation in the PFM assessed in the OECD reports, for the evidence from recommendations presented in the same reports, and for the evidence on the new developments in the PFM since OECD reviews, which is collected through the survey.

In the first step, original evidence is condensed into bullet-type summaries of assessments and recommendations that encompass broadly defined budgeting process segments, i.e. budget formulation/preparation, budget parliamentary scrutiny/approval, budget execution, supply of public service/ lower levels of government and budget control/audit. Condensed evidence also covers all important country documentation adopted since 2002 and influencing PFM institutions and activities. This condensed evidence is not presented in the study.

In the second step, condensed evidence is simplified and classified, according to the stylized PFM activities structure, into 35–38 items<sup>4</sup>. This version of the evidence is presented in the appendix, in Tables 1, 2 and 3. Making some trivial assumptions, the same evidence is graphically presented in Figures, using dendrograms, from cluster analysis, and distance

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2 In what follows terms »reports on the country OECD peer reviews«, »OECD reports« or »OECD reviews« will be used interchangeably.

3 In what follows term »activity« or »PFM activity« or »budget process activity« will indicate part of the budget process, while »PFM institution« will indicate corresponding part of the Public Financial Management system.

4 As a prototype structure of the stylized PFM activities, OECD questionnaire for 2007 survey is used; see appendix.

diagrams, from multidimensional scaling. Both types of diagrams are used to reveal (di)similarities of country PFM activities (institutions) profiles<sup>5</sup>. These diagrams are explicitly analysed and commented in the study.

In the third step, the stylized PFM structures presented in Tables 1, 2 and 3 are reorganized (partly aggregated) into a smaller number (12–15) of PFM activities so that same classification can be used for all three kinds of evidence (assessments, recommendations and survey results). The resulting classification of activities (institutions) covers all phases of the budgeting processes and, because of activities reduction, enables the presentation in radar graphs. These radar graphs are used for comparison of the intensities of PFM activities between all three abovementioned segments of evidence.

Dendrograms (cluster analysis) are used to detect similarities between groups of countries, regarding PFM activities and institutions, i.e. to detect similarities between groups of country PFM activity profiles. The complete linkage method<sup>6</sup> of making groups is used, which therefore means that distance (similarity) between groups (clusters) of countries is equal to the distance between two countries (one from every group) that are the farthest away. Similarity between groups of countries indicated on the y-axis of the dendrogram graphs is, therefore, the lowest similarity (the largest distance) of any pair of countries, one from every group. In other words, similarity between any pair of countries (one from every group) is at least as high as the indicated similarity (shown on graph) between corresponding two groups of countries.<sup>7</sup>

Multidimensional scaling distance diagrams complement information from dendrograms. Using them makes it possible to reveal (visualize) relative distances-differences (in budgeting processes activities) between all country pairs. A distance diagram is determined only to linear transformation (linear transformation does not change information in the distance diagram).<sup>8</sup> Its information is therefore embraced in the rankings of country distances. It is useful in analysing the pattern of country PFM activity profiles, especially in comparison to patterns of country PFM activity profiles from different periods, or sources of data: for example, in the case in this study at comparing the patterns of country PFM activity profiles between OECD assessments and recommendations, or between OECD reports' recommendations and surveys. Crucial information for pattern comparison is again the ranking of distances (for the same pair of countries) in both patterns.<sup>9</sup>

In both dendrograms and multidimensional distance diagrams the same (Jaccard) measure of similarity is used. It is appropriate for the type of evidence studied, because the country-specific size of non available data (lack of information on several PFM activities) does not

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5 In what follows, the term »country profile of PFM activities« will indicate the structure of the PFM activities corresponding to the specific country and phase (i.e. assessment, recommendations or survey) of analysis. Formally it corresponds to the country column in the (phase specific) Table in the appendix. Country differences in PFM activities will be used interchangeably with differences in country profiles of PFM activities.

6 Also known as the farthest neighbour clustering method.

7 More on cluster analysis see, for example, in Brian S. Everitt, [Sabine Landau](#), Morven Leese, 2001, *Cluster Analysis*, fourth ed., London.

8 Any translation or rotation of diagram does not change substance of its information..

9 More on multidimensional scaling see, for example, in Borg, I., Groenen, P. , 2005, *Modern Multidimensional Scaling: theory and applications*, 2nd ed., New York, Springer-Verlag.

affect the evaluation of the similarity of the countries' PFM activities profiles. The Jaccard distance is evaluated only on those PFM activities for which at least one of compared countries has available data.<sup>10</sup> In MDS analysis, the nonmetric method is used, which is appropriate for the qualitative data used in the analysis.

In radar diagrams, the intensity structure of the analysed PFM activities (institutions) is presented; the data could be quantitative and qualitative. For every activity, the frequency (number) of countries is shown, which use corresponding activity. In the radar diagrams in which completed and partly completed PFM activities are shown, completed activities are assigned a value of '1' and partly completed activities a value of '0.5'. To make the segments of PFM activities in radar diagrams more transparent, labels of activities are printed in different colours. Budget formulation activities are in black, parliament approval processes activities in blue, budget execution items in red, service delivery and lower level of government activities in green and audit items in yellow.

All exercises of explanatory statistical analysis are made in Stata.

## **2. Assessments and recommendations of the OECD review reports**

### *2.1 OECD review reports structure*

Assuring flexibility of the fiscal policy to support economic activity and allow automatic stabilizers to operate (when needed) is important. Equally so is to ensure the clarity of government targets and policies so that the line ministries and other stakeholders can understand them. Full understanding of the current state and future evolution of public finances and related risks can provide less socially painful fiscal adjustment when external shocks require for stabilization policy orientation.<sup>11</sup>

OECD peer review reports have attempted to assess PFM capacities, the responsibilities and accountability of MoF, line ministries, local governments and respective managers in those institutions for budget formulation, parliamentary approval, execution, public service pay/delivery and audit/accountability. Among important PFM agendas<sup>12</sup>, reports have dealt primarily with four sets of issues.

First, the budget formulation process has been analysed primarily through the integration of the budget structure and budget item classification, which should reflect a solid institutional and operational base for the introduction of medium-term budget formulation and the adoption of adequate fiscal rules. For those processes to be efficiently implemented, the

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10 For illustration, it is worth mentioning, that similarity of budget activities 0.4 indicates that 40% of budget activities implemented in at least one of the compared countries are implemented in both compared countries.

More on measures of similarity between sample sets see, for example, in Levandowsky, Michael; Winter, David, 1971, "Distance between sets", *Nature*, 234, 5.

11 See Marcel, Mario, 2012, *Budgeting for Fiscal Space and Government Performance Beyond the Great Recession*, OECD, GOV/PGC/SBO, and Schick, Allen, 2012, *Lessons from Crisis-Will the Crisis Change Budgeting*, OECD, GOV/PGC/SBO.

12 See Cangiano, Marco, Teresa Curristine, and Michel Lazare, 2013, *Public Financial Management and its Emerging Architecture*, International Monetary Fund, Washington, D.C.

accuracy, reliability and usability of macro and fiscal forecasting, strategic planning is crucial. Finally, without a strong top-down steering of the annual budget cycle and an appropriate level of implementation of program budgeting and performance information, there is no effective implementation of fiscal strategies and medium-term oriented fiscal rules.

Second, timeliness and an effective parliamentary scrutiny and approval process is considered to be a backbone of democratic and transparent budget procedure, with strong support office as a precondition of strengthening the role of parliaments in verifying the reliability of government budget documents presented. Cooperation between independent State Audit Institutions (SAI) and MoF in the country, and follow-up procedures are an important supplement to the efficacy of the scrutiny and approval of a government's performance and reporting on its fiscal position.

Thirdly, a robust budget execution process has to incorporate a solid commitment control and improved cash/debt planning and management with an important backup of streamlining information technology. Therefore, it is necessary that countries complement their cash reporting with some accrual-based reporting, and extend it beyond the central government level to also include local governments and social funds. The consistency and flexibility of budget execution process and proper monitoring tools are also vital to decision making. They can prevent government overspending or delays in planned spending. In this context, the arrangements for the reallocation of unused appropriations from one budget year to another can play an important role in steering efficiency dividends and avoiding year-end spending sprees. Quality-oriented public procurement and public-private partnership (PPP) arrangements represent a complementary process and constitute an essential ingredient to upgrading budget execution, even more so when public employment and service policies of recruiting and maintaining qualified staff.

Finally, a consolidation of internal audit offices, their better cooperation with SAIs as well as stricter follow up procedures of auditors decisions can develop audit activities, increase the accountability efficiency of budget institutions, and thus contribute to improved decision-making, which in turn can lead to better fiscal outcomes and more favourable macro-economic conditions.

## *2.2 Assessments of Public Financial Management activities - intensity and country comparison*

The summary analysis of OECD assessments for fifteen SECEE countries is based on the descriptive evidence, which is extracted from the peer review reports and transformed as described in the chapter on the methodology.<sup>13</sup> Analytical evidence received from such transformation is explicitly used in the analysis. It consists of country profiles of the

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13 Alternative analytical approaches for CESEE countries are presented in Tanderberg, Eivind, and Mia Pavesc-Skerlep, 2009, *Advanced Public Financial Management Reforms in South East Europe*, IMF Working Paper, WP/O9/102; Olden, Brian, Duncan Last, Sami Ylaoutinen, and Carla Sateriale, 2012, *Fiscal Consolidation in Southeastern European Countries-The Role of Budget Institutions*, IMF Working Paper, WP/12/113; Darvash, Zsolt and Valentina Kostyleva, 2011, *Fiscal and Monetary Institutions in Central and South-Eastern European Countries*, OECD Journal of Budgeting, Volume 1.



assessed budget activities as well as of the country frequencies for a smaller sample (of 15) crucial budget activities. Country profiles of the assessed budget activities are presented in dendograms of cluster analysis and in multidimensional scaling distance diagrams (Figures 2.2–2.5). For illustrating country intensity in assessed budget activities, country frequencies for corresponding budget activities are presented in radar graphs (Figures 2.1).

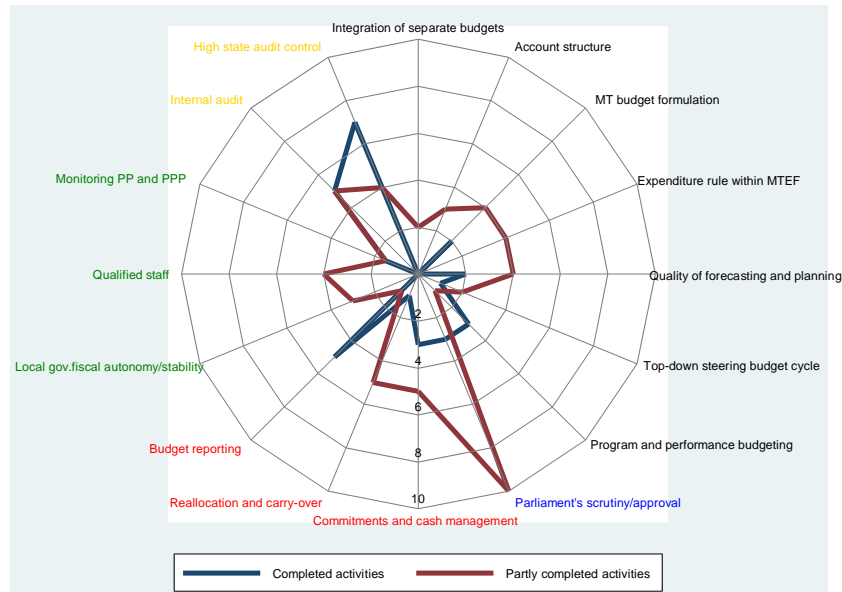
According to the OECD best-practice standards, the most important activities for budget processes improvement are related to the PFM innovations in integrating budgets at different level of government. Additional important ingredients to the process are adequate medium-term budget frameworks and fiscal forecasting/planning combined with top-down budgeting and a more prominent role of program budgeting and performance information. The results presented in Figure 2.1 give us an impression that most of those activities have been developing slowly in most countries. Among the seven activities within the budget formulation group of activities, the reviewers assessed that the improvement of forecasting/planning and medium-term budget formulation scored best (six countries), although the pace of completion of those innovations/reforms was rather modest (in both cases, only two countries completed the process: Georgia, Slovenia and Estonia, Georgia respectively). Improvement in program and performance budgeting was evaluated by OECD reviewers less favourably, as only four countries had partly or completely implemented corresponding institutions. Two other important activities, i.e. integration of separate budgets and top-down steering of the budget cycle, have been performed even less positively, indicating that the whole budget formulation cycle has remained in its initial stage.

Similar results can be reported for budget execution group of activities, where best performance has been found for budget commitment and cash planning (eight countries) and reallocation and carry-over of budget appropriations (six countries). Among those countries, only three are engaged in both types of budget activity improvements (Hungary, Latvia and Moldova). Slovenia was the only one to complete the first set of activities, while Bulgaria, Croatia and Montenegro were successful in implementing the second one. In all the remaining activities of budget execution and service pay/delivery, the assessed progress was minor. One exception was budget reporting (five countries completed the activity) and less so the recruiting and maintaining of qualified staff (four countries, but all with partly completed status of the activity).

Performance results analysed by the reviewers showed the most notable improvement in the budget activities referring to parliamentary scrutiny/approval and audit /accountability. The notable outlier among all PFM activities is timeliness and effectiveness of parliamentary scrutiny and approval process where all but two countries (Albania and Turkey) show improvements, though only three had completed these activities before peer reviews. Audit activities, internal and high state control reflect the second best results among all reviewed activities (with 10 and 11 countries being assessed as made substantial progress).

Besides developments in budget activities, we also considered country grouping, which could point to possible common factors driving or constraining the process of studied implementation of PFM institutions. Country grouping is based on the cluster analysis of assessed budget activities, either completed or partly completed. The resulting grouping

Figure 2.1: Assessed all (completed and partly completed) PFM activities



Source: OECD reports; own calculations.

Note: Country frequency indicated.

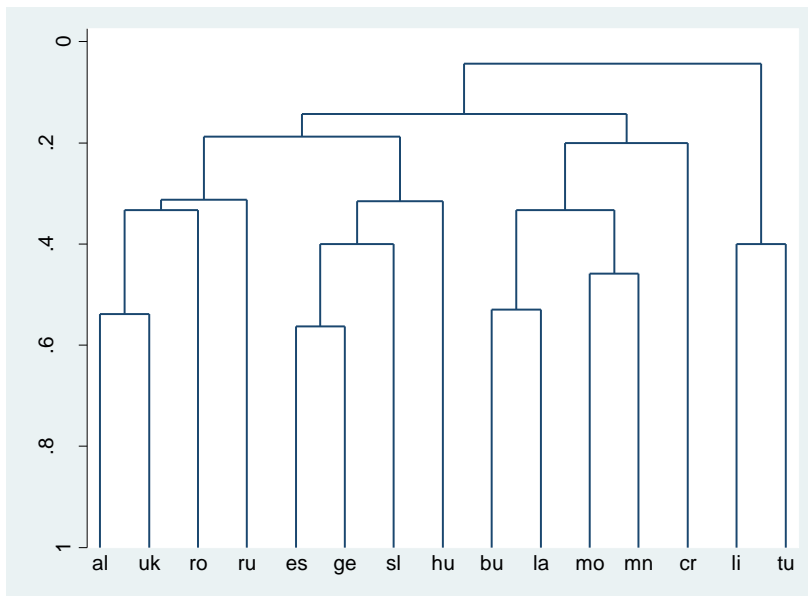
indicates the highest level of similarities between countries inside groups, as well as similarities between groups of countries, regarding assessed budget activities. For the sample of all recorded budget activities (see Figure 2.2), there are several pairs of countries with similarities higher than 0.4, quantified by their completed and partly completed activities<sup>14</sup>. At the initial level of grouping, there are three country pairs with significantly much higher similarity (over 0.55) in assessed budget activities (Albania and Ukraine, Estonia and Georgia, Bulgaria and Latvia), indicating that those pairs of countries had in common more than half of budgeting procedures in which they were making progress. At the other end of this spectrum, four ‘outliers’ can be found: Romania, Russia, Hungary and Croatia, as their similarity to other countries is only 0.2 to 0.3. Similarities of assessed budget activity profiles for larger groups drop fast with the size of the groups, although not uniformly across countries. There are, for example, three groups (clusters) of four countries with similarities of at least 0.35, while similarities of PFM activity profiles between the largest groups of countries are almost negligible. Similar conclusions can be drawn for completed activities (see Figure 2.3), although country similarities (in budget activity profiles) are visibly smaller than in the case of all (completed and partly completed activities). Some countries are complete outliers, notably Croatia but also Lithuania and Hungary.

Multidimensional scaling distance diagrams (see Figures 2.4 and 2.5) for all<sup>15</sup> and only completed budget activities give detailed representation of (di)similarities between

14 It is worth repeating, that similarity (of budget activity profiles) between two countries of 0.4 means, that 40% of budget activities implemented in at least one of countries are implemented in both of them.

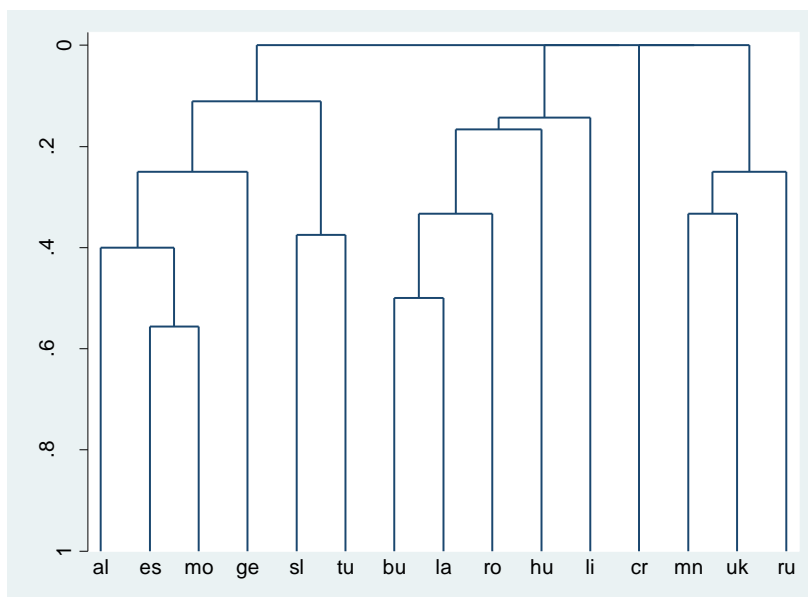
15 Sample of all activities consists of completed activities and partly completed activities.

individual countries. Distances between ‘country spots’ are a measure of similarity between  
 Figure 2.2: Assessed all (completed and partly completed) PFM activities



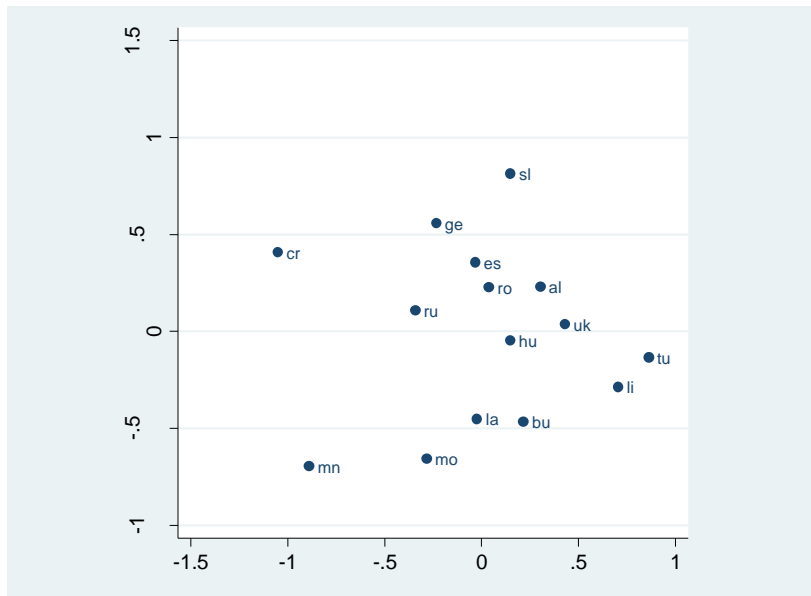
Source: OECD reports; own calculations.  
 Note: Cluster analysis; Jaccard similarity; complete linkage.

Figure 2.3: Assessed completed PFM activities



Source: OECD Reports; own calculations.  
 Note: Cluster analysis; Jaccard similarity; complete linkage.

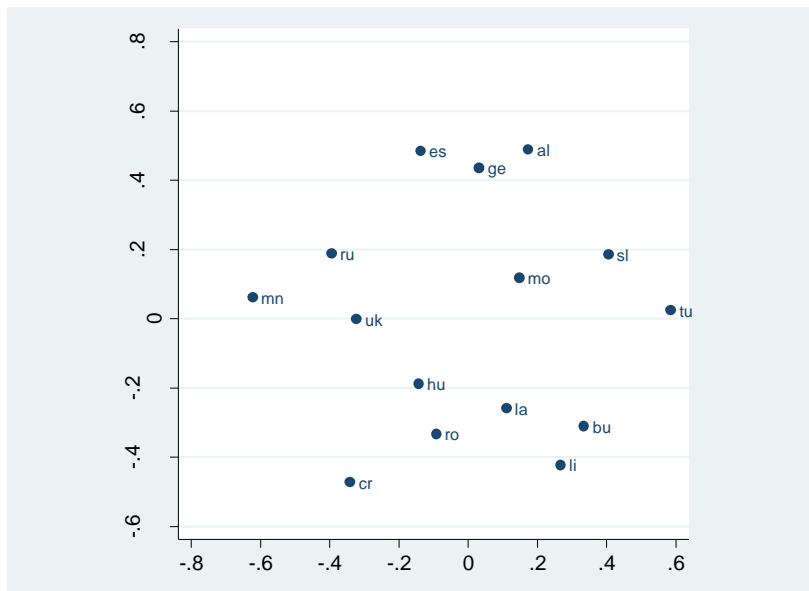
Figure 2.4: MDS distance diagram; assessed all (completed and partly completed) PFM activities



Source: OECD reports; own calculations.

Note: Multidimensional scaling; Jaccard similarity; method nonmetric.

Figure 2.5: MDS distance diagram; assessed completed PFM activities



Source: OECD reports; own calculations.

Note: Multidimensional scaling; Jaccard similarity; method nonmetric.

(the budget activities profiles of) different countries.<sup>16</sup> The figures show the similarities (concentration/dispersion) of countries, regarding all assessed and only completed assessed activities. Figures 2.4 and 2.5 confirm the already emphasized results at commenting dendrograms: dispersion (disimilarity) is much higher in the case of completed assessed budget activities (Figure 2.5).

### *2.3 Recommendations for Public Financial Management activities – intensity and country comparison*

An important part of the peer review reports was a set of recommendations to the countries concerned regarding the necessary (in the reviewers' opinion= qualitative improvements in their principally important PFM activities).

The main lines of recommendations were concentrated in the area of budget formulation in accordance with the PFM best-practice standards (see Figure 2.6). They formulated enhancing the medium-term budget framework, which is based on efficient fiscal forecasting (including budget planning), and supported by binding fiscal rules (incorporating streamlining top-down budgeting) as an important precondition of fiscal sustainability and macro-economic stability. Supporting developments in budget execution and parliamentary approval process should also contribute to the efficiency of the budget formulation process as a consequence of better distribution and control of limited fiscal resources.

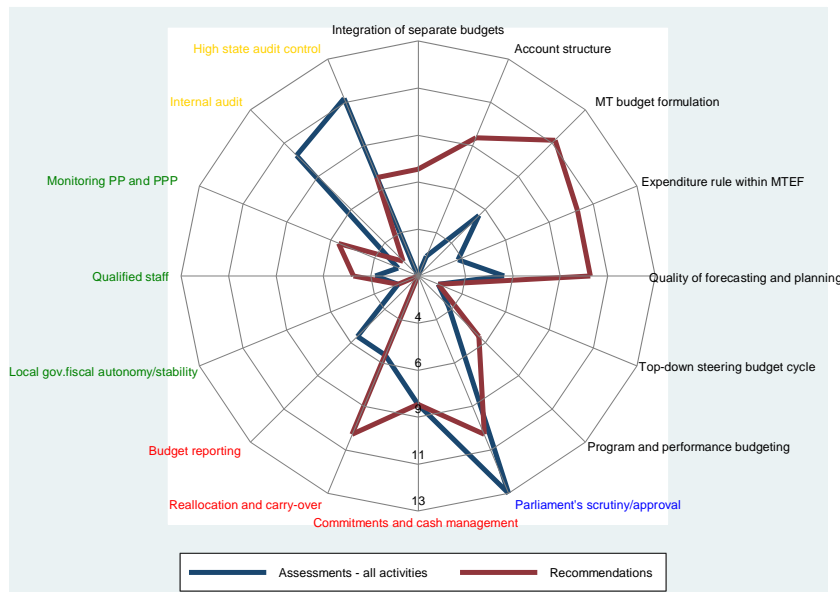
A notable exception in this recommendation approach was program and performance budgeting activity, because reviewers probably believed that this activity is much tougher for countries to accomplish and less critical in the medium-term for the positive outcome of budget reforms.

To reveal possible effects of the assessed budget activity situation on the OECD reviews' recommendations, assessed and recommended budget activities are compared on Figures 2.6 and 2.7, in which radar diagrams are given for the most important PFM activities. Analysis of assessed budget activities (separately for all completed and partly completed activities) and reviewers' activity recommendations shows major differences between assessed (actual) budget developments, in the period of individual peer reviews, and OECD best-practice standards incorporating in the missions report recommendations. Figure 2.6 indicates that there could be three notable PFM activity exceptions, because OECD report recommendations emphasize budget activities that are, according to their own assessment, already quite successfully implemented. These budget activities are parliamentary approval process, appropriation commitments control and cash management as well as audit activities.

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<sup>16</sup> Actually it is linear transformation of the similarity.

Figure 2.6: Assessed all (completed and partly completed) PFM activities and recommendations



Source: OECD reports; own calculation.

Note: Country frequency indicated; recommendations; assessments of completed and partly completed activities

However Figure 2.7, in which only assessed completed PFM activities are shown, reveals that the aforementioned mismatch between assessed and recommended budget activities pertains only to audit activities. Specifically, most of the assessed PFM activities in improving the parliamentary approval as well as appropriation commitment controls and cash management were only partly implemented in the time of OECD reviews. Therefore, emphasizing further improvement in these PFM activities, as the OECD report recommended, seems to be appropriate. Comparison of assessed completed PFM activities and recommendations additionally confirms the aforementioned results for other (especially budget formulation) activities, for which a (very) small number of countries with completed PFM activities coincide with the strong OECD recommendations.

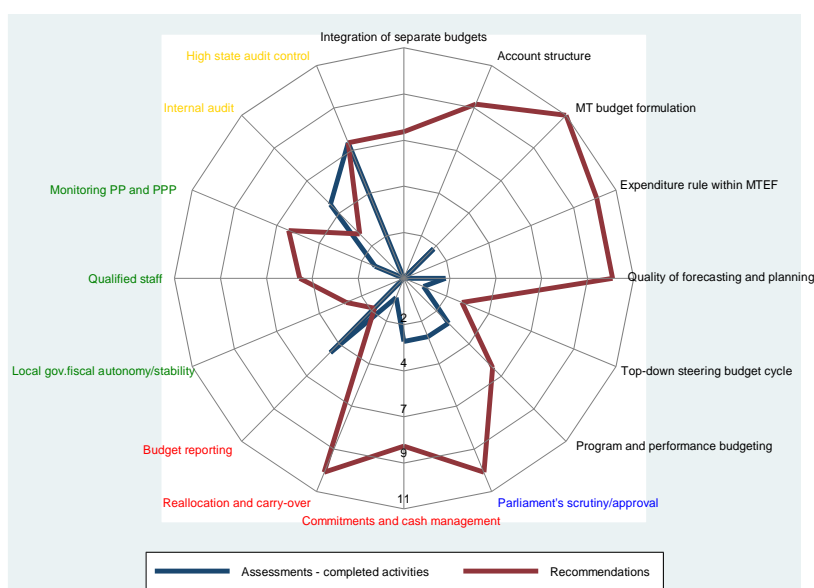
There is an interesting issue of country grouping regarding (di)similarity of budget activity profiles. Specifically, it could reveal the impact of OECD doctrine (the best practice standards) on the corresponding recommendations. Country grouping is again based on cluster analysis (Figure 2.8). There are four country pairs, with the similarity of PFM activities of more than 0.5 (Montenegro and Ukraine, Slovenia and Lithuania, Moldova and Turkey, Croatia and Hungary). Among them, Montenegro and Ukraine exhibit by far the highest similarity of budget activity profiles (at more than 0.7)<sup>17</sup>. When we attempt to assemble broader groupings of countries, similarity drops significantly and ends up below 0.4 (when 10 countries are concerned) and around 0.2 (when the grouping is composed of 13 countries). Obvious outliers with the lowest similarity to other groups of countries are

17 It means, 70% of PFM activities recommended to Montenegro or Ukraine were recommended to both.

Bulgaria and Georgia.

A multidimensional scaling distance diagram (Figure 2.9) shows detailed differences among countries. There are two groups of countries regarding similarity of budget activity profiles distribution. In the first group there are countries (Romania, Russia, Slovenia, Ukraine, Montenegro, Hungary, Moldova, Latvia, Turkey and Lithuania) with noticeable similarity to several other CESEE countries. In the second group there are countries (Albania, Bulgaria, Georgia, Estonia and Croatia) with minor similarity of budget activity profiles to all other countries.

Figure 2.7: Assessed completed PFM activities and recommendations

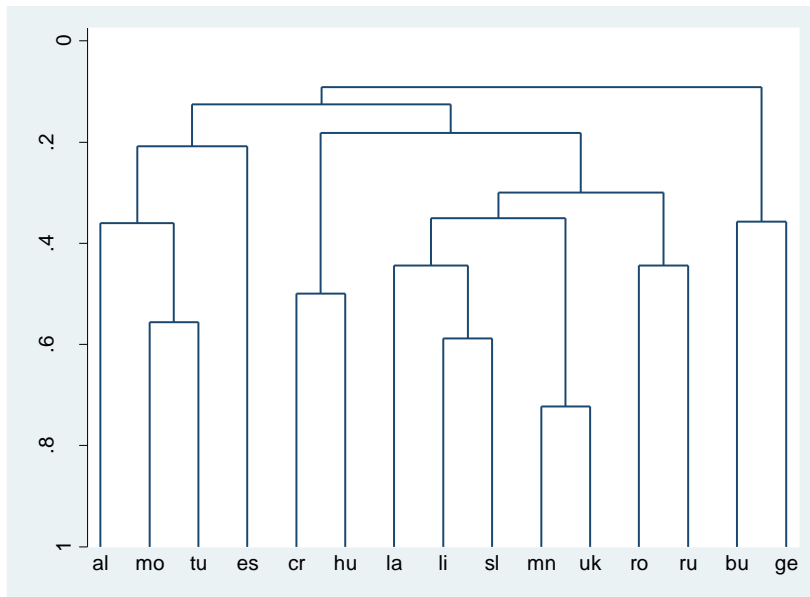


Source: OECD reports; own calculations.

Note: Country frequency indicated; recommendations; assessed completed activities.

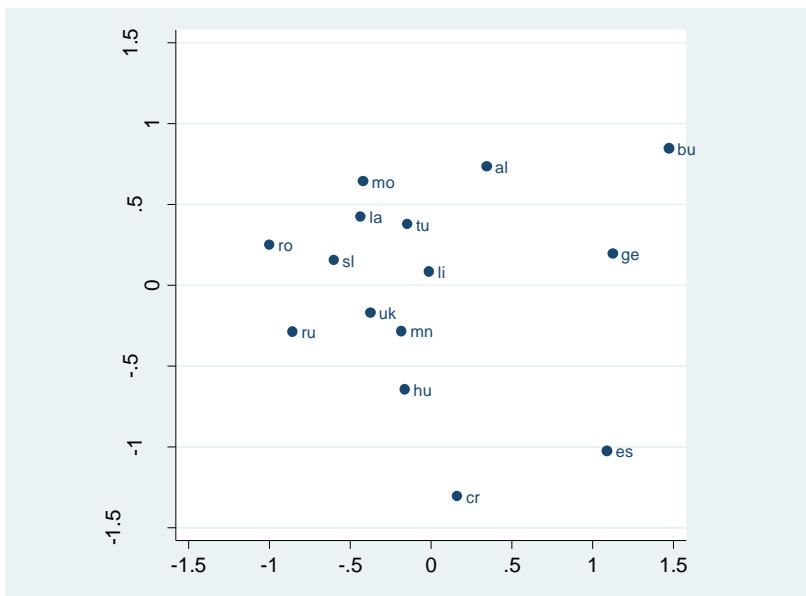
Comparison with the pattern of country distances (corresponding budget activity profiles) pattern on the distance diagram for all assessed (completed and non-completed) activities and/or only assessed completed activities (Figures 2.4 and 2.5) with corresponding pattern on distance diagram for recommendations, shows considerable differences, which is hardly consistent with recommendations based on the same pronounced doctrine and the OECD report assessment information.

Figure 2.8: Recommended PFM activities



Source: OECD reports; own calculations.  
Note: Cluster analysis; Jaccard similarity; complete linkage.

Figure 2.9: MDS distance diagram; recommended PFM activities



Source: OECD reports; own calculations.  
Note: Multidimensional scaling; Jaccard similarity; method nonmetric.



## 2.4 Main findings

Assessments and recommendations of the PFM situation from the OECD reports give four important messages. Firstly, countries have made obvious improvements in general government budgeting although not so robustly in the areas defined by the OECD best-practice standards as most necessary for fiscal sustainability and macro-economic stability. Structural analysis of assessed budget activities confirms that countries differ in completed budget activities much more than in all (completed and partly completed) activities, which is an indication that initial commitment for reforms does not necessarily signal their rapid and efficient finalization.

Secondly, the process of completion of best-practice PFM reforms and innovations progressed unevenly among SECEE countries, and a comparison of assessed and recommended PFM activities in peer review reports show that changes in budget execution, parliamentary approval and audit activities proved to be less complicated and socially demanding than recommended improvements in budget formulation and preparation activities. As many countries have been strongly hit by financial and economic crisis since the reviews were conducted, they had to concentrate on short-term interventionist measures and at least temporarily postponed more structural and institutionally reform/innovation policy changes.

Thirdly, the main lines of the OECD report recommendations were concentrated in the area of the budget formulation and much less on the budget execution and parliamentary approval processes. They emphasized enhancing medium-term budget frameworks, based on efficient fiscal forecasting, supported by binding fiscal rules and top-down budgeting, as an important precondition of fiscal sustainability, and macro-economic stability. Improvements in reallocation and carry over of spending items, appropriation commitment controls and cash management and parliamentary approval process were the second most recommended area for the improvement of the budgeting processes in the OECD reports. One notable exception in the OECD recommendations was the rather lukewarm approach to program and performance budgeting activity. Reviewers probably believed that this activity to be much more difficult for CESEE countries to accomplish and less critical for the effectiveness of medium-term budget reforms.

Finally, the assessed and recommended PFM process activities in OECD reports were not incompatible. With only two exceptions, the recommendations only emphasized PFM activities that had been not fully (or not at all) implemented according to their assessment. The only two exceptions were recommendations on audit activities and budget reporting (see Figure 2.7).

Although the assessed and recommended PFM activities were not incompatible, their correlation do not corroborate the proposition of (more pronounced) doctrine-based recommendations.

### **3. Developments since the OECD reviews - Survey results**

#### *3.1 Organization of the survey and presentation of the results*

A short survey was prepared to evaluate PFM developments after OECD reviews, and to compare them with the assessed situation in the PFM system and/or with the recommended changes in that system made in the OECD reports. The survey was sent to MoF representatives in the analysed CESEE countries.

The survey collected answers to three groups of questions. Firstly, there were inquiries regarding crucial institutional changes in the area of budget formulation, which were successfully implemented in the period after the peer review reports were prepared, or which would have had to be implemented but had failed, (Questions 1-2). The second group of questions was prepared to reveal the development of the institutional foundations of the segments of the budgeting processes, which had been indicated in the assessment of the OECD reports as weak or partly completed (Questions 3-10). Finally, important PFM country specifics, which were pinpointed as crucial in the OECD reports recommendations, were found the third group of questions in the survey (Questions 11-12).

The survey questions engaged in all segments of the budgeting process, but those from the budget formulation were by far the most numerous. Because OECD reports revealed several important characteristics of the PFM system that were country specific, in the survey, two questions (out of twelve) were tailor made to encompass such specifics. Details on questions from the survey are available in the appendix, where complete Questionnaire is presented.

A survey of the budgeting process in analysed countries took place at the beginning of 2014. Answers were received from all countries except Albania and Ukraine. Because questions of the survey were deliberately stated more broadly, i.e. they were not focused strictly to specific items, answers were descriptive and as a rule engaged in several broader (more than one important) issues of the PFM process. Evidence received from the survey was transformed in the same way as evidence from the OECD reports (basic steps are described in the methodological chapter). First, a condensed (bullet type) version of the answers is prepared, in which the state/performance is clearly identified for every specific PFM institution (activities) handled in the survey. These condensed answers are then classified according to the main activities (institutions) of the PFM process. The resulting classification of the condensed answers is presented in Table 3, which is added in the appendix.

For every activity indicated in the Table 3, four performances (states) are possible. Specifically, in the period after the OECD budget review, activity could be a) completely implemented, b) partly implemented, c) poorly or not implemented at all (because of failure or modified PFM strategy) or d) left unchanged (not put in the implementation), because of different (specific) budgeting process improvement agenda. Completed, partly completed and poorly implemented activities are visible/indicated in Table 3, whereas blanks are used to denote that changes in the corresponding budget process activity have not been launched,

or that they are of minor importance for the present performance of the budgeting process (therefore, they were not mentioned as important in the survey answers).

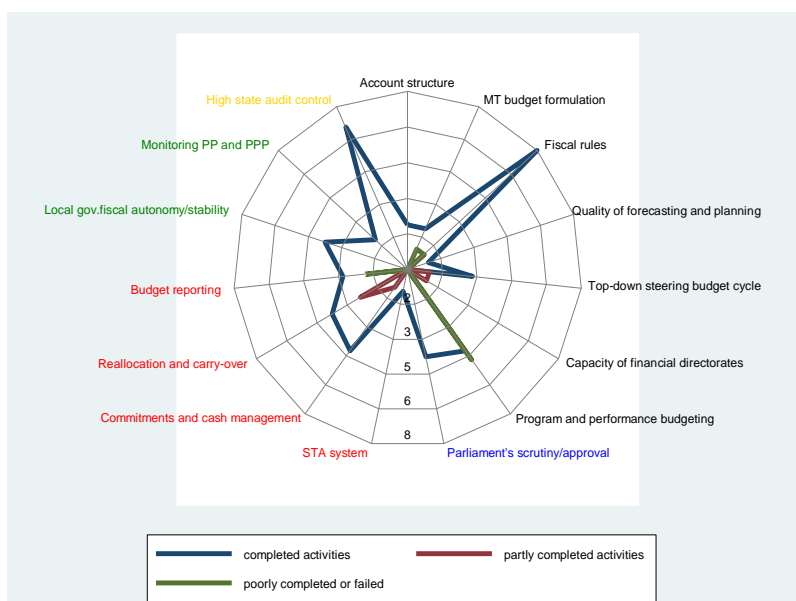
To make survey results more transparent and easier to grasp, the distributions of survey results over activities and, separately, over countries are illustrated in Figures 3.1-3.4.

### 3.2 PFM activities after OECD reviews – intensity comparison

The intensity of the changes in PFM activities is illustrated in Figure 3.1, where the number of countries (frequency) is shown in which a specific PFM process activity was modified after OECD reviews. Activities that were completely implemented are presented in blue, those implemented only partly are in red, and activities that were poorly implemented or failed in green. Figure 3.1 documents that, according to the intensity of implementation, heuristically speaking, at least four groups of the PFM activities could be identified.

After the OECD reviews, the main changes have been made in two activities of the PFM: in implementing fiscal rules and in empowering follow-up procedures of the external audit decision (opinion). Both have been implemented in more than half of the surveyed countries.

Figure 3.1: Intensity of PFM activities; survey



Source: Survey; own calculations.

Note: Country frequency indicated; completed activities; partly completed activities; failed activities.

Appropriation commitments control and more efficient cash management as well as modified budget formulation emphasizing performance and program oriented processes were the next most frequently implemented PFM activities. After OECD reviews, both activities were successfully implemented in almost 40% of surveyed CESEE countries.

According to the intensity of reform, the next group of PFM activities consisted of institutional changes that increased parliamentary effectiveness with regards to the scrutiny and approval of the proposed budget, increasing flexibility of the reallocation (inside ministries) and carry over (across budget years) of line (spending) items, as well as pushing institutional changes (by restructuring instruments of the local governments financing in favour of own or shared taxes, non-earmarked grants and transparent equalization transfers) towards greater fiscal autonomy and stability of the local government.

In almost 40% of CESEE countries, reforming institutions towards program and performance budgeting have failed or had poor results, after OECD reviews. Specifically, in spite of considerable increase in the institutional infrastructure for the performance and program budgeting, advancement of results seems still weak (unsatisfactory). Especially weak are results of the implementation attempts to increase performance-oriented budget processes. To some extent, achievements in increasing budget reporting are less disappointing, as around one fifth of surveyed countries have poor outcome (see Figure 3.1 and also Table 3).

### *3.3 PFM activities after OECD reviews – country comparison*

Not only intensity of PFM process activities but also the country specificities in PFM process activities launched after OECD reviews differ considerably. As mentioned in the chapter on methodology, (di)similarity between countries PFM process activities is defined (and quantified) as (di)similarity between country profiles of PFM process activities<sup>18</sup>.

Differences between countries in PFM process activities (institutions) launched after OECD reviews are illustrated on the Figures 3.2-3.4, in which grouping of countries regarding similarity of their PFM process activities is presented.<sup>19</sup> The figures also reveal similarities between countries regarding status (completed, partly completed or failed) of the PFM process activities implemented after OECD reviews. On Figure 3.2, all completed and partly completed PFM activities launched after the OECD reviews are illustrated: only completed are given on Figure 3.3, while failed or poorly implemented are presented on Figure 3.4.

In terms of the PFM process activities implemented in the period after OECD reports, it is very difficult to speak about similar countries in any group larger than three countries. Similarities of PFM activities between groups of over three countries are very low (less than 25% of common completed or partly completed activities), as is documented in Figures 3.2-3.3. Countries in the top clusters (the most aggregated groups of countries) have almost no similarity in the implemented activity profiles<sup>20</sup> independently of the status of the analysed

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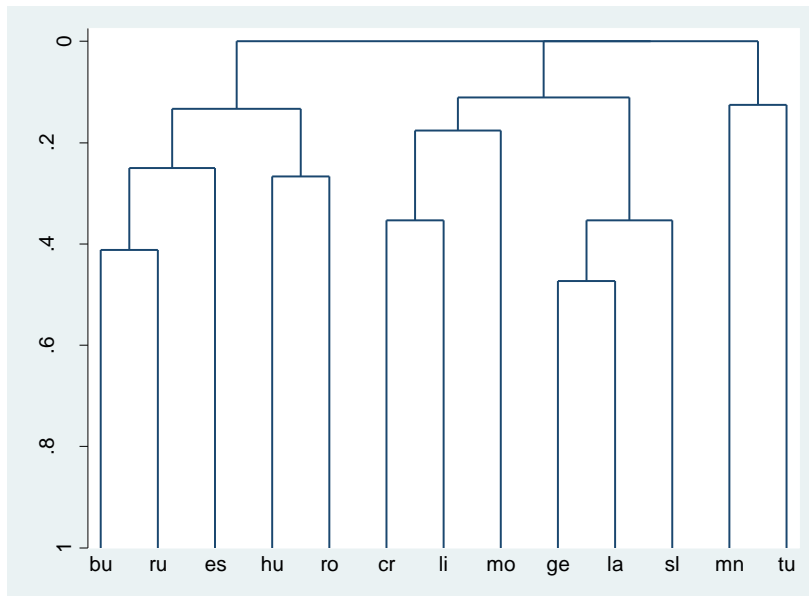
18 The term »country profile of PFM activities« indicates the structure of implementation of all PFM activities corresponding to specific country. Formally it corresponds to the column of that country in the Table 3. «Country differences in PFM activities» will be used interchangeably with «differences in country profiles of PFM activities».

19 See chapter on methodology, where procedures of preparing explanatory statistics are described. As mentioned in the chapter on methodology, similarity measure used in comparison of countries is the share of common activities in all activities which are implemented in at least one of both compared countries (Jaccard similarity).

20 In the Figures, complete linkage is used for creating clusters; therefore, similarity among clusters of countries is also the lowest similarity among pairs of countries from both clusters.

PFM process activities.

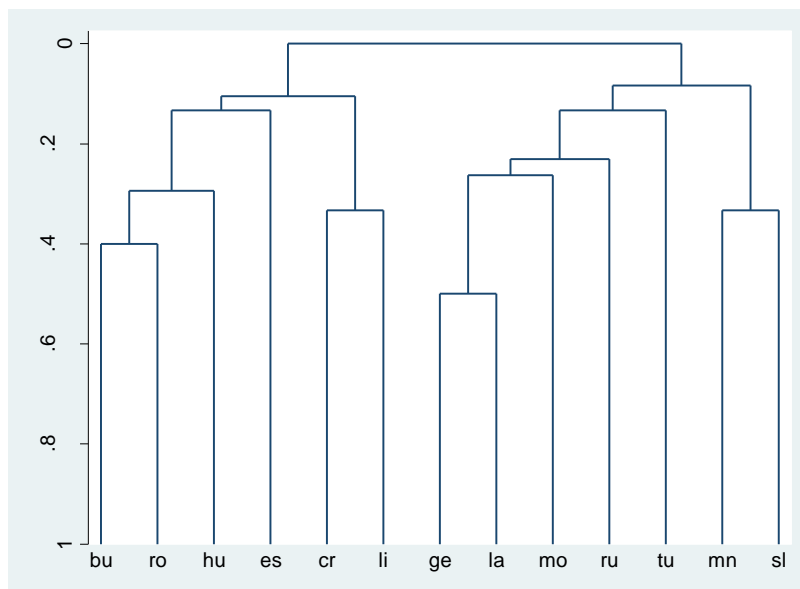
Figure 3.2: Country profiles similarity of all (completed and partly completed) PFM activities; survey



Source: Survey; own calculations.

Note: Cluster analysis; Jaccard similarity; complete linkage.

Figure 3.3: Country profiles similarity of completed PFM activities; survey



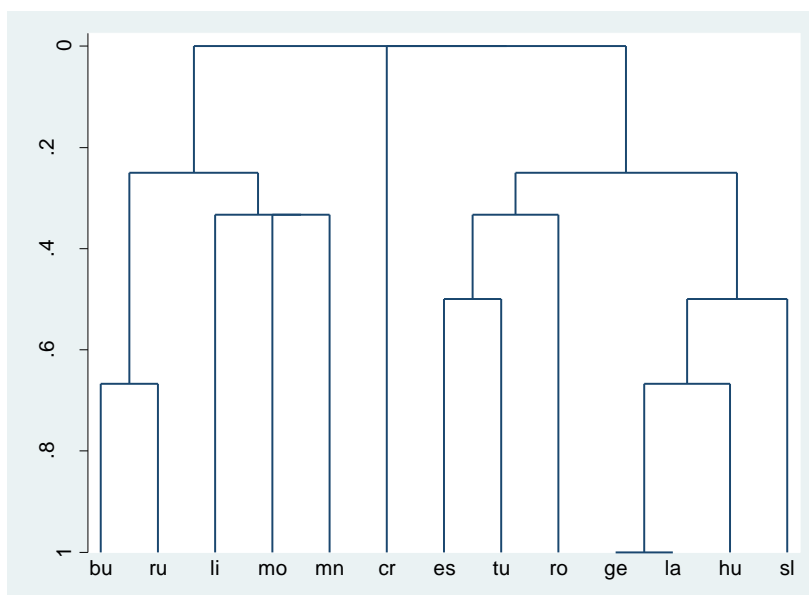
Source: Survey; own calculations.

Note: Cluster analysis; Jaccard similarity; complete linkage.

According to the similarity in the (completely or partly) implemented activities after the OECD review, CESEE countries could be disaggregated into three groups with almost no

similarity (in the implemented budget process activities) between them. The first group consists of Bulgaria, Russia, Estonia, Hungary and Romania; the second group consists of Montenegro and Turkey, while rest of the countries are in the third group.

Figure 3.4: Country profiles similarity of failed PFM activities; after OECD reviews



Source: Survey; own calculations.

Note: Cluster analysis; Jaccard similarity; complete linkage.

On the other side, similarity in completed and partly implemented activities launched after the OECD reviews is considerably higher for the smallest groups (lowest clusters) of countries, i.e. for pairs of countries. Pairs of countries have 40%-50% of implemented activities (budget process institutions) in common. Much higher country pair-wise similarity of the PFM activities launched after the OECD reviews is visible on both dendrograms in Figures (3.2-3.3).

A comparison of individual countries shows that the highest similarity in the PFM process (completely or partly implemented) activities launched after OECD reviews is found in Latvia and Georgia as well as Russia and Bulgaria. Countries from both pairs have over 40% (completely or partly implemented) budgeting process activities in common.

Low similarities of larger group of countries regarding PFM activities launched after OECD reviews pertains especially to comparisons of the completed and partly completed activities; this is documented in Figure 3.4 showing groups (clusters) of countries created by the similarity of the failed (or poorly) implemented PFM process activities in the period after the OECD peer reviews. It is obvious that basic characteristics (high pair-wise and negligible overall similarity) of the country groups' similarity is the same as for the country groups for the completely and partly implemented activities. However, in the case of failed (poorly implemented) PFM activities (launched after OECD reviews), similarity between medium-sized groups is much higher; countries from clusters of three have, for example, at least 35% of poorly implemented PFM activities in common.

Furthermore, for failed (poorly implemented) activities, there are three groups of countries with no similarity between them. The first group consists of Bulgaria, Russia, Lithuania, Moldova and Montenegro; in the second group there is only Croatia, while all other countries are in the third group. Croatia is obviously an outlier; it does not have in common with any CESEE country a budget process activity for which both would have failed after OECD reviews (it was the only country that had poor implementation of the expenditure setbacks compensation; see Table 3 in the appendix).

Figure 3.4 documents that there are several groups of three and even four countries with quite similar profiles of poorly implemented PFM process activities. The largest group (the highest cluster) of countries, with similar poorly implemented budget process activities, consists of Georgia, Latvia, Hungary and Slovenia. They have in common at least half of poorly implemented (failed) analysed PFM activities. There are two additional groups of countries that share over 35% of poorly implemented PFM activities; one group consists of Lithuania, Moldova and Montenegro and the other Estonia, Turkey and Romania. The lowest pair-wise country similarities are 0.35 and the highest 1; Georgia and Latvia have the same poorly implemented activities.

### *3.4 Main findings*

Since the OECD reviews, the main changes have been made in implementing fiscal rules and in empowering follow-up procedures of the external audit decisions (opinions). Both have been implemented in more than half of the surveyed countries. Noticeable improvements have also been achieved in appropriation commitment controls and cash management, reallocation and carry over of spending items, and parliamentary approval activities. Reforming institutions towards implementation of performance and program-oriented processes have been also successful in several (40%) CESEE countries; however, at the same time, in almost half of countries same reforms have failed or had poor results, after OECD reviews. Especially weak have been results of the implementation attempts to increase performance oriented budget processes. Heuristically speaking, the survey results show that in the CESEE countries the activities (institutions) of the PFM process that could be launched and/or implemented quickly, are more robust (less risky) to implement and are simple to master have had priority in the PFM new developments after the OECD reviews.

After the OECD reports, the pattern of successful PFM activity implementation differed significantly among CESEE countries. There was hardly any PFM activity pattern similarity in groups of more than three countries. The similarity of failed (poorly implemented) PFM activities was much higher. A comparison of the CESEE countries according to the PFM process activities that were poorly or not implemented at all in the period after OECD peer reviews reveals a much higher similarity between medium-sized groups of countries than a comparison between all (completely or partly) implemented activities. Heuristically, it could be maintained that there had to be some common (not country-specific) factors behind poor (or even failed) implementations of the PFM process activities in the period after the OECD reviews. However, program and performance budgeting was by far the most frequent (and important) segments of the PFM process activities which were poorly implemented (or even

failed) after the OECD peer review. It could be, therefore, tentatively concluded that such concentration of poorly implemented PFM activities on only one segment of the PFM process caused high similarity of analysed countries with regards to poorly implemented PFM activities.

It is worth emphasizing that despite the considerable increase of fiscal backstop (fiscal rules, fiscal councils) implementations, reforms tackling crucial activities (institutions) for the sustainable fiscal consolidation (medium-term expenditure framework, baseline estimation and single treasury account) have been rare or poorly implemented (reforms failed or at least stalled). It is unclear whether such phenomena resulted from avoiding corresponding reforms or from poor preparation as well as poor implementation and a lack of determination for such reforms.

## **4. New developments in budgetary structures and OECD reviews**

### *4.1 New developments and OECD assessments*

A comparison of OECD reviews assessments/recommendations and actual developments in PFM activities seems quite instructive because of the drastic changes in economic conditions that have occurred. Combining the already discussed evidence could be used in such a comparison endeavour. First, comparison of OECD reviews assessments and new developments is undertaken.

Assessment of the PFM processes in CESEE countries made in the OECD peer reviews and surveys of the corresponding developments after the reviews are presented in Tables 1 and 3 in the appendix<sup>21</sup> in a condensed version and illustrated in Figures 2.1-2.5 and 3.1-3.4, which make country and /or PFM process activities/ institutions (di)similarities more transparent.

Figures 2.1-2.5 document the state of the PFM system in the time of OECD reviews, and Figures 3.1-3.4 developments (changes) after those reviews. To compare developments in the PFM process segments (activities) launched after OECD reviews with the situation on corresponding segments (activities) in the time of OECD reviews, information in those two groups of figures is combined and presented in Figures 4.1 and 4.2.

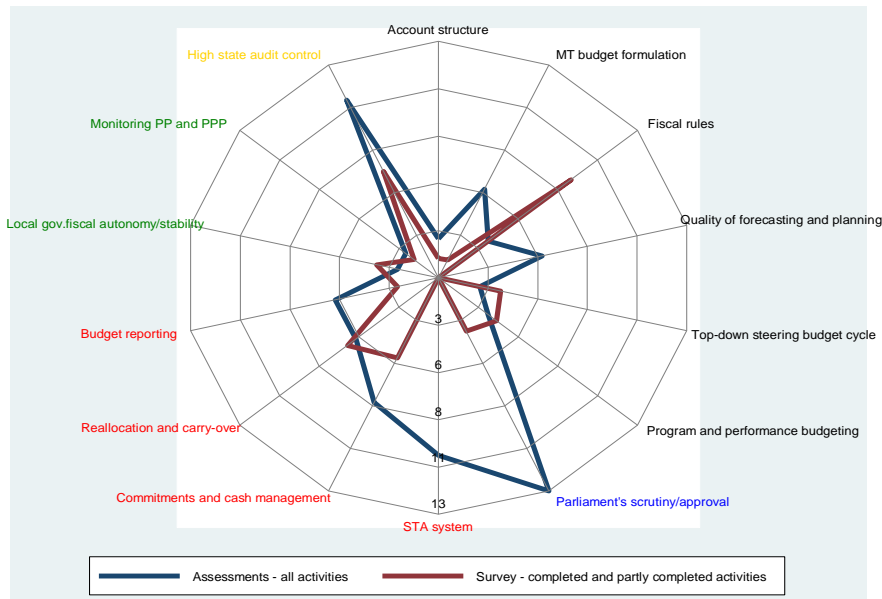
Only basic activities (institutions) of the budget formulation, parliamentary approval, budget execution, service delivery and audit are revealed in the graphs. The details of comparison between situations in PFM activities in OECD reports and developments in PFM activities after reviews are constrained by the number and comprehensiveness of the survey questions. The survey was very short, limited to 12 (most of them quite broad) questions, and explicitly tackling developments on only few PFM institutions, already identified as important at analysing assessments in the OECD reports.

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21 Assumptions and procedure of transforming extensive descriptive evidence are described in the chapter on the methodology.



Figure 4.1: Intensity of PFM activities; OECD assessments and survey – all (completed and partly completed) activities



Source: Survey; OECD reports; own calculations.

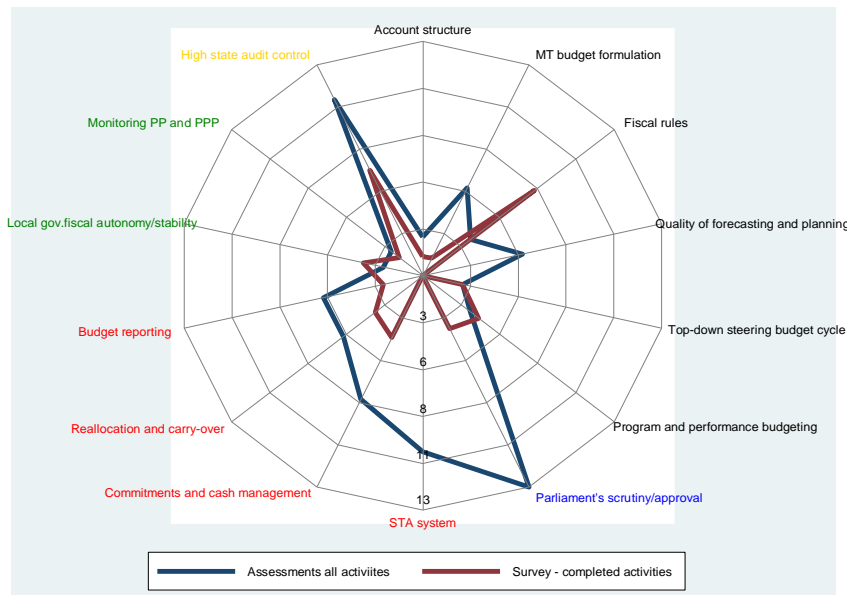
Note: Country frequency indicated; assessments – all activities; survey - completed and partly completed activities.

These PFM institutions (activities) are presented in the figures in stylized form. Obviously, the number of activities (PFM institutions) given on both graphs have to be limited ('small enough') also because of the transparency of 'radar-type' graphs used in both figures; however, the crucial constraint is (as mentioned) the number and comprehensiveness of the survey questions.

A comparison of the PFM situation in CESEE countries, assessed in the OECD reports, and developments (complete and partly implemented activities) to 2013 are illustrated in Figure 4.1, while a comparison of assessed situation with only completed PFM activities (institutions) is given in Figure 4.2.

Fiscal rules were the only PFM institution on which CESEE countries have drastically changed their PFM institutional infrastructure since the time of OECD reports. Specifically, according to the assessments, only in four countries had the fiscal rules been implemented at the time of OECD reports, whereas afterwards in the survey nine countries reported (partial or complete) implementation of fiscal rules.

Figure 4.2: Intensity of PFM activities; OECD assessments and survey – completed activities



Source: Survey; OECD reports; own calculations.

Note: Country frequency indicated; assessments – all activities; survey - completed activities.

Regarding the other PFM segments, after the OECD reports, there have been improvements in mostly the same PFM activities, having been identified as implemented in the OECD reports. In three PFM segments, for example, CESEE countries kept intensively launching new institutions also after OECD reviews in spite of the fact that the number of countries having implemented institutions backing corresponding PFM segments had already been high at the time of the preparation the OECD reports. After the OECD reviews, CESEE countries quite intensively proceeded to implement institutions enabling external audit impact on the budgeting processes, reallocation and carry-over of spending items and effectiveness of the appropriation commitments and cash management system.

The additional build-up of the activities enforcing policy makers' feedback to the external audit opinions and recommendations has been especially vigorous. The differences in comparison to other PFM segments (e.g. budget execution) are especially pronounced if only the activities completed after OECD reviews are compared. After OECD reviews, additional institutions for external audit opinions and recommendation enforcement have already been completely implemented in seven CESEE countries. At the same time, in corresponding institutions of budget execution (commitments and cash management and reallocation and carry over) only one third of countries report additional completed PFM institutions, and the increases are seen in completely or partly implemented activities in around half of the countries.

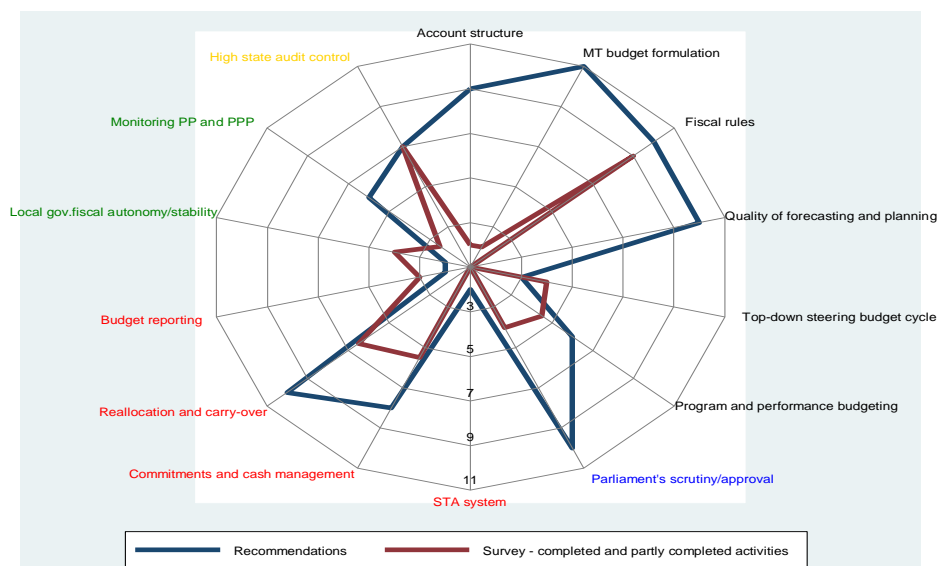
#### 4.2 New developments and OECD recommendations

To evaluate developments in the PFM systems after the OECD reviews, it would probably

be more fruitful to compare the survey results with the recommendations made in the OECD reports, than to compare the survey results with the assessments from the same OECD reports. In principle, recommendations could take into account not only the assessed PFM situation in specific country, but also (country specific) priority structures of the PFM process segments (activities), as well as appropriateness of the timing (phase in the fiscal development), i.e. the capability of the country (its ‘absorption’ capacity), to implement several interconnected institutions important for PFM processes in the turbulent period after the OECD reports. This is especially so, because even in more advanced countries some of those institutions are still implemented more as prototypes than as truly workable solutions.

Recommended changes in the PFM activities, given in the OECD reports, and actual developments of the public finance management system after OECD reviews are illustrated in Figures 4.3 and 4.4. On the first figure, the intensity structure of the activities in the OECD report recommendations<sup>22</sup> is compared with the intensity structure of all (complete and partly implemented) activities in the survey.<sup>23</sup> On the second figure, the recommended activities are compared with only completely implemented activities in the survey. The graphs again encompass only the most basic activities of the PFM processes.

Figure 4.3: Intensity of PFM activities; OECD recommendations and survey- completed and partly completed activities



Source: Survey; OECD reports; own calculations.

Note: Country frequency indicated; recommendations; survey – all (completed and partly completed) activities.

It should be noted that the argument is the same as in the previous part of the chapter: the very specification of the survey (number and broadness-precision of the questions) determines the potential level of detail of the comparison of the PFM process activities in

22 Number of countries for which every specific PFM activity is recommended in the OECD reports

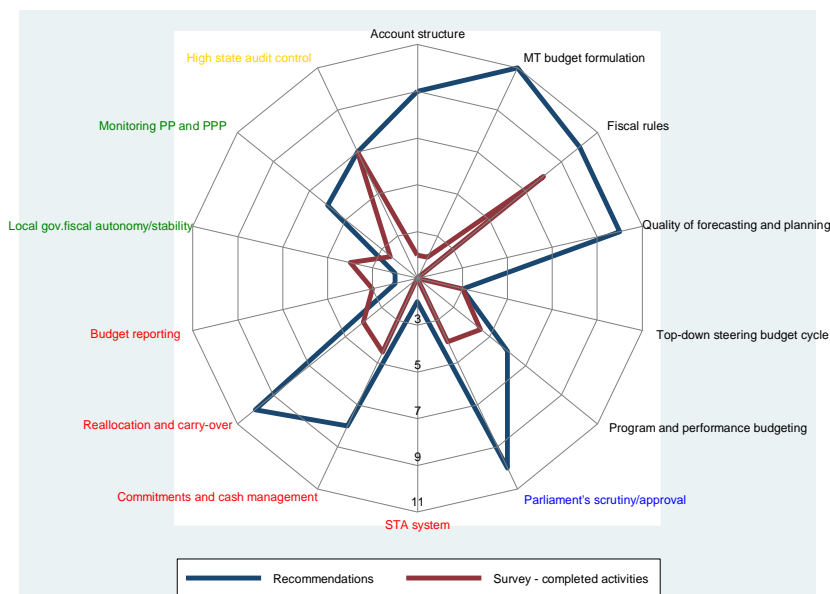
23 Number of countries for which every specific PFM activity is, according to the survey, completely or partly implemented.

the two analysed time sections (in the reports and in the survey).

Recommendations in the OECD reports obviously emphasized three groups of PFM activities: 1) budget formulation activities (adjustment of the accounting structure, quality of forecasting and orientation towards medium-term budget formulation and fiscal rules); 2) budget execution activities (reallocation and carry-over of spending items and commitments of spending appropriations and cash management) and 3) the process of parliament budget approval activities. In the OECD reports, at least eight (out of fifteen) countries were directed towards PFM activities in all three groups.

According to the survey, PFM activities launched after OECD reports at least partly follow the emphasized activity structure recommended in the OECD reports. Two groups of activities (those from budget execution and process of parliamentary approval) are the same as in the OECD reports' recommendations, while fiscal rule implementation is the only one from the budget formulation group of activities.

Figure 4.4: Intensity of PFM activities; OECD recommendations and survey – completed activities



Source: Survey; OECD reports; own calculations.

Note: Country frequency indicated; recommendations; survey - completed activities.

In the intensity structure of PFM activities, there are two visible differences between recommendations in OECD reports and the actual implementation after OECD reviews, as documented in the survey.

Firstly, crucial institutions (activities) for long-term sustainable fiscal performance (medium-term budget formulation and quality of forecasting and planning) were of exclusive importance in the OECD reports recommendations (in over 60% of analysed CESEE countries, orientation towards these activities was explicitly suggested).

At the same time, in the survey there is no reported success in (even partly) implementation of any of these PFM process activities.

Secondly, the survey reported that the implementation intensity of the procedures for the enforcement of external audit decisions is equal to the country intensity of the OECD reports' recommendations for making external audit opinion and decisions more effective. Obviously, external audit effectiveness was (in terms relative to the OECD reports' recommendations) by far the most vigorously implemented budget process activity.

Resemblances and differences of the structure of PFM activity intensity (importance) between OECD recommendations and actual developments do not depend on the completeness of the PFM activity implementation. Both Figures 4.3 and 4.4 have the same shape.

It is noteworthy that both figures reveal that the frequency structure of PFM activities (number of countries for every specific activity) in the survey is, heuristically speaking, much more similar to the corresponding structure of the recommended than the assessed activities in the OECD reports. This means that the recommendations in OECD reports did take into consideration not only the assessed situation in the PFM system, but also other already mentioned constraints (e.g. PFM activity priority and timing/phase of the country fiscal development) which significantly shape the implementation time profile for every specific PFM process activity.

### *4.3 Main findings*

Developments in institutions of the PFM processes after OECD reports have been, with one exception, the least vigorous in the budget formulation segment. Only in the implementation of fiscal rules has there been considerable activity in CESEE countries after the OECD reviews. Some kind of fiscal (balance, debt or expenditure) rule has been implemented (completely or partly) in nine CESEE countries. Therefore, the group of countries with fiscal rules more than doubled since the OECD reviews.

Improvements in the budget formulation institutions that are crucial for more fundamental change in the long run fiscal sustainability have been quite meagre. Developments in medium-term budget formulation, quality of forecasting and planning and adjusting account system are not revealed in the survey to be important in any CESEE country. Although developments in the build up of institutions for more program- and performance-based budgeting have been noticeable, CESEE countries having implemented corresponding institutional infrastructure are obviously still in the minority. Important factors for such backlog are probably also considerable lack of such PFM process institutions in the time of OECD reviews and drastic change in macroeconomic conditions, which required simple and strong fiscal measures with immediate effects. Such slower advancement in the implementation of corresponding activities seems sensible, because of the sophistication of program- and performance-based budgeting.

According to the survey, PFM activities launched after OECD reports at least partly follow

the activity structure recommended in those reports. Two groups of activities, i.e. those from budget execution and processes of parliamentary approval, are the same as in the OECD reports recommendations, while fiscal rule implementation is the only one from the budget formulation group of activities. There are two visible differences between the recommendations in the OECD reports and actual implementation after OECD reviews. Firstly, crucial institutions for long-term sustainable fiscal performance (medium-term budget formulation and quality of forecasting and planning) were of exclusive importance in the OECD report recommendations; at the same time, there is almost no reported successful implementation of any of these PFM process activities in the survey. Secondly, in the survey, the reported implementation intensity (country frequency) of the procedures for the external audit decisions enforcement is relatively much higher than in the OECD report recommendations.

It should be reiterated that frequency pattern of the implementation of PFM activities in the survey is, heuristically speaking, much more similar to the corresponding pattern of the recommended activities than the assessed ones in the OECD reports, which means that the recommendations in the OECD reports took into consideration not only assessed situations in the PFM system, but also other constraints (e.g. PFM activity priority and timing/phase of the country's fiscal development), which significantly shape the implementation time profile for each specific PFM process activity.

## **APPENDIX**

### **I. QUESTIONNAIRE**

#### **I.1 GENERAL QUESTIONS FOR ALL COUNTRIES:**

##### **A. BUDGET FORMULATION**

1. Which are the two most important reforms in the area of budget formulation that have taken place since the OECD budget review in your country (e.g., in the area of fiscal forecasting, fiscal rules, medium term planning and expenditure ceilings, introduction of program classification of the budget, etc.)?
2. Which are the two most important subjects in the area of budget formulation where at the current moment further reforms are still needed?
3. If the fiscal rules reform was implemented since the OECD budget review, what was the argument for the adoption of a specific rule? (e.g., expenditure rule, revenue rule, budget balance rule, debt rule)
4. If multi-year expenditure targets or ceilings were used since the OECD review, what level of government institutional set up was instrumental? (aggregate/program level, ministry/agency level)
5. If limits (ceilings) for each ministry's initial spending request by the Central Budget Authority were imposed since the OECD review, what type of limits was introduced? (indicative limits, some types of expenditure on a chapter level, some types of expenditure at a line item level, all types of expenditure at a chapter level, all types of expenditure at a line item level)
6. If actions were launched since the OECD review to enhance performance measures (outputs and/or outcomes) of the budget, how was the budget structure adjusted? (introducing program type classification - number of programs, introducing performance indicators - number of sectors, reducing line item appropriations - number of line items )

##### **B. PARLIAMENTARY APPROVAL**

7. Has since the OECD review any reform been launched to improve the Parliamentary approval process (for instance the Parliamentary budget calendar)? If yes, please summarize this reform.

##### **C. BUDGET EXECUTION**

8. Have actions been taken since the OECD review to enhance Treasury control of commitments leading to expenditure in the budget year and future years (only for the Central Government, or, for the Central and Local Government)?
9. Have actions been initiated since the OECD review to facilitate reallocation of funds, and carry-over of unused funds to next year(s) (with/without restrictions)?

## **D. AUDITING**

10. Have actions been taken since the OECD review to strengthen follow up procedures on the findings of the Supreme Audit Institutions (e.g., in the parliament)?

## **I.2 COUNTRY SPECIFIC QUESTIONS:**

### **ALBANIA**

11. What actions have been taken in the last five years to further reduce quasi fiscal activities of the state owned enterprises?
12. What legal changes have been enacted in the last five years to improve transparency of public procurement procedures?

### **BULGARIA**

11. Have actions been taken in the last five years to include remaining separate budgets (state funds, social insurance and extra budgetary funds, state agencies) into the consolidated budget?
12. What legal changes have been enacted in the last five years to improve transparency of public procurement procedures?

### **CROATIA**

11. Have actions been taken in the last five years to include remaining separate budgets (state funds, social insurance and extra budgetary funds, state agencies) into the consolidated budget?
12. How are the local governments financed (own tax revenue, equalization, grants)?

### **ESTONIA**

11. Have actions been taken in the last five years to enhance MoF and/or line ministries' control over public private partnerships?
12. How are the local governments financed (own tax revenue, equalization, grants)?

### **GEORGIA**

11. Have actions been taken in the last five years to enhance the efficiency of cash management in the public sector?
12. What are the parliamentary procedures in place to compensate for the proposed adjustments in the parliamentary approval process?

### **HUNGARY**

11. Have actions been taken in the last five years to include remaining separate budgets (state funds, social insurance and extra budgetary funds, state agencies) into the consolidated budget?
12. How are the local governments financed (own tax revenue, equalization, grants)?

### **LATVIA**

11. Have actions been taken in the last five years to enhance MoF and/or line ministries' control over public private partnerships?
12. Have actions been taken in the last five years to enhance the efficiency of cash management in the public sector?

### **LITHUANIA**

11. Have actions been taken in the last five years to include remaining separate budgets (state funds,



social insurance and extra budgetary funds, state agencies) into the consolidated budget?

12. Have actions been taken in the last five years to enhance the efficiency of cash management in the public sector?

### **MOLDOVA**

11. What actions have been taken in the last five years to strengthen finance directorates in the line ministries?
12. How are the local governments financed (own tax revenue, equalization, grants)?

### **MONTENEGRO**

11. What actions have been taken in the last five years to further reduce quasi fiscal activities of the state owned enterprises?
12. What legal changes have been enacted in the last five years to improve transparency of public procurement procedures?

### **ROMANIA**

11. Have actions been taken in the last five years to include remaining separate budgets (state funds, social insurance and extra budgetary funds, state agencies) into the consolidated budget?
12. Have actions been taken in the last five years to enhance the engagement of the Parliament in connection with the audit findings?

### **RUSSIA**

11. What actions have been taken in the last five years to further reduce quasi fiscal activities of the state owned enterprises?
12. What legal changes have been made in the last five years to improve transparency of public procurement procedures?

### **SLOVENIA**

11. Have actions been taken in the last five years to include remaining separate budgets (state funds, social insurance and extra budgetary funds, state agencies) into the consolidated budget?
12. What legal changes have been enacted in the last five years to improve transparency of public procurement procedures?

### **TURKEY**

11. What actions have been taken in the last five years to further reduce quasi fiscal activities of the state owned enterprises?
12. Have actions been taken in the last five years to enhance cash management efficiency of the public sector?

### **UKRAINE**

11. What actions have been taken in the last five years to further reduce quasi fiscal activities of the state owned enterprises?
12. What legal changes have been enacted in the last five years to improve transparency of public procurement procedures?

## **II. THE OECD BUDGET PRACTICES AND PROCEDURES - 2007 SURVEY STRUCTURE**

### **II.1 BUDGET PROCESS CLASSIFICATION**

#### **A. Budget formulation**

Legal framework

Structure of the budget

Classification of the budget items

*Administrative*

*Economic*

*Functional*

Fiscal soundness of budget formulation

Fiscal rules

Budget formulation

*Calendar*

*Annual macroeconomic and budgetary forecast*

*Medium term budget program*

*Budget formulation within ministries*

*Submission and consideration of the yearly budget law*

*Interim budget*

*Supplementary budget*

Elements of budget formulation

*Performance and results*

*Baseline estimates*

*Investment budgets*

*Guaranties and loans*

*Documents and transparency*

Organization of the MF

#### **B. Role of legislature**

Legal framework

Parliamentary budget process

*Budget approval*

*Budget monitoring*

*Budget control*

#### **C. Budget execution**

Basis for budget execution

Organization of budget execution

Cash management

*Process*

*System*

*Arrears*

Debt management

Reallocations and carry over

*Reallocations*

*Supplementary budget*  
*Reserve fund and/or contingency fund*  
*Carry over*

**Budget monitoring**

The structure of public administration and service delivery

*Levels of government*  
*Number of budgetary institutions*  
*Number of spending units*  
*Extra budgetary funds*  
*Employment and human resource management*

**Public enterprises**

Fiscal relations across levels of government (grants, equalizations, transfers)

Main categories of revenues and expenditures by levels of government

Public employment and civil service

Public procurement

***D. Accountability, control and audit***

Accounting basis and procedures

Reporting

Public internal financial control

*Financial management and control*  
*Internal audit*  
*Financial inspection*

External audit

*Legal framework*  
*Accountability and role of National Parliament*  
*High state control (National audit office/State audit office/Court of audit, etc.)*

### III. SUMMARY TABLES

**TABLE 1: ASSESSMENTS**

<b>A</b>	<b>Budget formulation</b>	<b>AL</b>	<b>BU</b>	<b>CR</b>	<b>ES</b>	<b>GE</b>	<b>HU</b>	<b>LA</b>	<b>LI</b>	<b>MO</b>	<b>MN</b>	<b>RO</b>	<b>RU</b>	<b>SL</b>	<b>TU</b>	<b>UK</b>
1	Legal framework <i>1. Overall quality of national budget strategy/legislation</i>	A	A		A	A	B	B	A	A		B	B	A	A	B
2	Structure of the budget <i>2. The process of integration of separate budgets into consolidated budget</i>						B		B							
3	Classification of the budget items <i>3. Complexity of the structure of accounts</i> <i>4. Program classification</i>		B	B				B		B				B B	A	
4	Fiscal soundness <i>5. The introduction of medium-term budget formulation (MTBF)</i>				A	A	B	B				B		B		
5	Fiscal rules <i>6. The use of an expenditure rule within a MTBF</i> <i>7. The use of fiscal rules for local governments</i>		B					B		B	B					
6	Budget formulation structure <i>8. The quality of forecasting, strategic planning and analysis (accuracy, reliability, usability)</i>	B			B	A						B		A		B
7	Elements of budget formulation <i>9. The level of implementation of program budgeting and performance information</i> <i>10. Implementation of top-down steering of the annual budget cycle</i>	A	B								A					A
8	Organization of the MoF and budgetary activities <i>11. The level of capacity in MoF and line ministries</i> <i>12. The quality of interaction between MoF and line ministries</i> <i>13. Control of extra budgetary funds and quasi fiscal role of public enterprises (PE)</i>			B		B				B	B	B		B	B	

**TABLE 1 (continuation)**

<b>B</b>	<b>Parliamentary approval</b>	<b>AL</b>	<b>BU</b>	<b>CR</b>	<b>ES</b>	<b>GE</b>	<b>HU</b>	<b>LA</b>	<b>LI</b>	<b>MO</b>	<b>MN</b>	<b>RO</b>	<b>RU</b>	<b>SL</b>	<b>TU</b>	<b>UK</b>
1	Legal framework for approval process	A	B	B	B			B		B	B	B	B			B
2	Parliamentary budget process <i>14. The timeliness/effectiveness of Parliament's scrutiny and approval process</i> <i>15. The level of resources of parliamentary support office</i> <i>16. The role of the budget/audit committees</i>		B	B	B	B	B	B	A	B	B	B	A	B		A
						B		B	A	B	B	B			B	

**TABLE 1 (continuation)**

<b>C</b>	<b>Budget execution and public service pay, delivery and procurement</b>	<b>AL</b>	<b>BU</b>	<b>CR</b>	<b>ES</b>	<b>GE</b>	<b>HU</b>	<b>LA</b>	<b>LI</b>	<b>MO</b>	<b>MN</b>	<b>RO</b>	<b>RU</b>	<b>SL</b>	<b>TU</b>	<b>UK</b>
1	Basis for budget execution legislation	A	A		A			A	A	A		A		B	A	B
2	Organization of budget execution <i>17. The extent of consolidation of general government budget</i> <i>18. The level of responsibility of line ministries, program managers, local governments</i>		B	B							A				A	
3	Cash and debt management <i>19. The level of commitment control and cash planning</i> <i>20. The quality of Treasury Single Account System (TSA)</i> <i>21. The quality of debt management</i>	A	A A	A B	A	B B	B B	B		B A	B A	A	A	A	A	A
4	Reallocations and carry-overs <i>22. The quality of the procedure for reallocation and carry-overs</i> <i>23. Supplementary budget and arrears</i>						B	B	B		B B			A	B	
5	Budget monitoring and reporting <i>24. Timeliness and quality of budget reporting</i>	A			A	A				A		B	A			
6	The structure of public administration and service delivery <i>25. Decentralized responsibility in service delivery</i> <i>26. The consolidation of small municipalities</i> <i>27. The organization of state/local administration</i>			A	B	B	B	B		B	B		B	B		B
9	Public enterprises, agencies <i>28. The efficiency and transparency of public enterprises</i>									B	B					
10	Fiscal relations <i>29. Fiscal autonomy and financial stability of local governments</i> <i>30. Equalization of fiscal capacity</i>			B		B		B		B			B			B
11	Public employment and civil service <i>31. Recruiting and maintaining qualified staff</i>			B						B	B			B		
12	Public procurement, Public-Private-Partnership (PPP), privatization and contingent liabilities <i>32. The quality of public procurement</i> <i>33. The quality of PPP procedures</i>			A	A				B	B	B		A			

**TABLE 1 (continuation)**

<b>D</b>	<b>Audit and accountability</b>	<b>AL</b>	<b>BU</b>	<b>CR</b>	<b>ES</b>	<b>GE</b>	<b>HU</b>	<b>LA</b>	<b>LI</b>	<b>MO</b>	<b>MN</b>	<b>RO</b>	<b>RU</b>	<b>SL</b>	<b>TU</b>	<b>UK</b>
1	Accounting basis and procedures <i>34. The accounting system</i> <i>35. Transformation to accrual accounting</i>	B	A	B				A	B	A	B	B		A	A B	B
2	Public internal financial control <i>36. Internal audit</i>		A		A	B	A	A	A	B			B		B	B
3	External audit <i>37. High state control/ State Audit Institutions (SAI)</i> <i>38. Accountability and role of the legislator</i>	B		B	A	B	A	A		A	A B	A B	A B	B B		

**Note:** **A** - important progress made; finished activities; **B** - plans prepared, implementation pending; unfinished activities; weights assigned in analysing weighted data: A – 1; B – 0.5.

**Legend:** **AL** - Albania/Nov 12, **BU** - Bulgaria/Feb 09, **CR** - Croatia/Sep 05, **ES** - Estonia/Jan 08, **GE** - Georgia/Dec 05/, **HU** - Hungary/May 05, **LA** - Latvia/May 09, **LI** - Lithuania/Feb 10, **MO** - Moldova/Mar 10, **MN** - Montenegro/June11, **RO** - Romania/May 04, **RU** - Russia/Oct 07, **SL** - Slovenia/Sep 04, **TU** - Turkey/07, **UK** - Ukraine/Oct10.

## TABLE 2: RECOMMENDATIONS

<b>A</b>	<b>Budget formulation</b>	<b>AL</b>	<b>BU</b>	<b>CR</b>	<b>ES</b>	<b>GE</b>	<b>HU</b>	<b>LA</b>	<b>LI</b>	<b>MO</b>	<b>MN</b>	<b>RO</b>	<b>RU</b>	<b>SL</b>	<b>TU</b>	<b>UK</b>
1	Structure of the budget <i>1. Integrate separate budgets within a consolidated budget</i>		X	X			X		X			X	X	X		
2	Classification of the budget items <i>2. Simplify the accounts structure</i>			X			X	X		X	X		X	X	X	X
3	Fiscal soundness / budget formulation <i>3. Enhance the medium-term orientation in budget formulation (MTBF)</i>				X		X	X	X	X	X	X	X	X	X	X
4	Fiscal rules <i>4. Consider adopting an expenditure rule within a MTBF</i> <i>5. Introduce rule-based budgeting: tax revenue floor</i> <i>6. Ensure fiscal rules for local government</i>				X			X	X	X	X	X	X	X	X	X
5	Budget formulation <i>7. Strengthen forecasting and planning (accuracy, reliability, usability)</i> <i>8. Assure transparency: review the calendar, simplify documentation, explain contingent liabilities, tax expenditures</i>	X					X	X	X	X		X	X	X	X	X
		X		X	X	X	X	X	X	X		X		X	X	X
6	Elements of budget formulation <i>9. Complete the move towards program and performance budgeting</i> <i>10. Improve the budget information to strengthen performance orientation</i> <i>11. Reinforce top-down steering of the annual budget cycle</i> <i>12. Move gradually to (modified) accrual</i>	X			X											
		X	X	X	X	X	X		X		X				X	X
					X				X	X						
					X						X					
7	Organization of the MoF <i>13. Strengthen capacities in finance and line ministries</i> <i>14. Streamline interaction finance/line ministries, enhance line ministries responsibility</i>	X	X		X					X			X			
		X	X		X					X			X			

**TABLE 2 (continuation)**



<b>B</b>	<b>Parliamentary approval</b>	<b>AL</b>	<b>BU</b>	<b>CR</b>	<b>ES</b>	<b>GE</b>	<b>HU</b>	<b>LA</b>	<b>LI</b>	<b>MO</b>	<b>MN</b>	<b>RO</b>	<b>RU</b>	<b>SL</b>	<b>TU</b>	<b>UK</b>
1	Parliamentary budget process															
	<i>15. Improve the timeliness/effectiveness of Parliament's scrutiny and approval process</i>	X	X	X		X	X		X		X	X		X		X
	<i>16. Provide more resources for an independent support office</i>	X	X			X		X	X	X	X	X	X			
	<i>17. Emphasize cooperation between State Audit Institutions (SAI) and MoF, and follow-up procedures</i>			X					X		X	X	X	X		X

**TABLE 2 (continuation)**

<b>C</b>	<b>Budget execution and public service pay, delivery and procurement</b>	<b>AL</b>	<b>BU</b>	<b>CR</b>	<b>ES</b>	<b>GE</b>	<b>HU</b>	<b>LA</b>	<b>LI</b>	<b>MO</b>	<b>MN</b>	<b>RO</b>	<b>RU</b>	<b>SL</b>	<b>TU</b>	<b>UK</b>
1	Organization of budget execution <i>18. Enhance responsibility of line ministries, local governments, program managers</i>	X	X			X		X	X	X				X	X	
2	Cash & debt management <i>19. Establish a better commitment control and improve cash planning</i> <i>20. Pursue IS / IT improvements</i>	X						X	X	X	X			X	X	X
		X		X		X	X	X			X					
3	Reallocations and carry-overs <i>21. Improve the procedure for reallocations and carry-overs</i>	X				X	X	X	X	X	X		X		X	X
4	Budget monitoring and reporting <i>22. Highlight program results in budget reporting</i> <i>23. Provide continuous updates and control, including line ministries and decentralized agencies</i>	X	X	X			X	X								
5	Fiscal relations /grants, equalizations, transfers <i>24. Include municipalities finance in Treasury Single Account (TSA)</i> <i>25. Improve criteria for (exceptional) transfers</i> <i>26. Simplify equalization system</i>		X			X							X			
				X	X											
6	Public employment and civil service <i>27. Shift to performance-related culture and pay</i> <i>28. Amend the civil service law/introduce reform</i> <i>29. Attract qualified staff and emphasize merit-based recruitment</i>	X X X	X				X X			X X	X	X	X	X	X X X	X X X
7	Public Procurement, Public-Private-Partnership (PPP), privatisation and contingent liabilities <i>30. Strengthen supervision of PPPs, guarantees, SOEs, quasi fiscal activities</i> <i>31. Consider privatization</i>	X			X			X X	X				X X	X		X
										X	X	X				

**TABLE 2 (continuation)**

<b>D</b>	<b>Audit and accountability</b>	<b>AL</b>	<b>BU</b>	<b>CR</b>	<b>ES</b>	<b>GE</b>	<b>HU</b>	<b>LA</b>	<b>LI</b>	<b>MO</b>	<b>MN</b>	<b>RO</b>	<b>RU</b>	<b>SL</b>	<b>TU</b>	<b>UK</b>
1	Accounting basis and procedures 32. <i>Raise awareness about financial management and managerial accountability</i> 33. <i>Enable effective internal audit processes: consolidation of internal audit offices, set up in ministries</i> 34. <i>Strengthen collaboration between internal audit offices and State Audit Institution (SAI)</i>	X						X				X				
		X									X					X
							X		X				X			
2	Reporting 35. <i>Shift the focus of reporting from financial information to management performance</i> 36. <i>Simplify audit reporting</i>	X										X				
3	External audit 37. <i>Ensure the independence of the SAI / High state audit control</i>			X	X	X	X				X		X			X

**Legend:** **AL**- Albania; **BU**- Bulgaria; **CR** - Croatia; **ES** - Estonia; **GE** - Georgia; **HU** – Hungary; **LA** - Latvia; **LI** - Lithuania; **MO** - Moldova; **MN** - Montenegro; **RO** - Romania; **RU** - Russia; **SL** - Slovenia; **TU** - Turkey; **UK** - Ukraine.

**TABLE 3: SURVEY**

<b>A</b>	<b>Budget formulation</b>	<b>BU</b>	<b>CR</b>	<b>ES</b>	<b>GE</b>	<b>HU</b>	<b>LA</b>	<b>LI</b>	<b>MO</b>	<b>MN</b>	<b>RO</b>	<b>RU</b>	<b>SL</b>	<b>TU</b>
1	Classification of the budget items <i>1. Classification of financial accounts</i> <i>2. Classification of programmes</i>	A C	A	A	A		A		A		C	C	A	
2	Fiscal soundness <i>3. The medium-term orientation in budget formulation (MTBF)</i> <i>4. Baseline estimates</i> <i>5. Forecasting and planning (accuracy, reliability an usability)</i>	C A	A A		C	B C	C	C	C	C	C	A	C	C
3	Fiscal rules and fiscal councils <i>within a MTBF</i> <i>6. Fiscal rules-general</i> <i>7. Expenditure rule</i> <i>8. Debt rule</i> <i>9. Balance budget rule</i> <i>10. Fiscal council</i>	A A A A	A A A	A A	A A A	A A A A	A A A A	A	C		A A A A	B A	B A	
4	Budget formulation <i>11. Ceilings for expenditure-frequency of update</i> <i>12. Ceiling for expenditure-total</i> <i>13. Ceiling for expenditure-total without municipalities</i> <i>14. Ceiling for expenditures-state</i>	A A	B A	A A	A A		A		A		A A	A A	A C	A
5	Elements of budget formulation <i>15. The move towards program and performance budgeting</i> <i>16. The budget information to strengthen performance orientation</i> <i>17. Top-down steering of the annual budget cycle</i> <i>18. Gradual adjustment to (modified) accrual accounting standards</i>		A A	C A C	C A	C	C A	A B	A		C	A	C	C
6	Organization of the MoF and budgetary activities <i>19. Integrating extra budgetary funds and quasi fiscal activities of public enterprises (PE) in general government budget</i>												A	

**TABLE 3 (continuation)**

<b>B</b>	<b>Parliamentary approval</b>	<b>BU</b>	<b>CR</b>	<b>ES</b>	<b>GE</b>	<b>HU</b>	<b>LA</b>	<b>LI</b>	<b>MO</b>	<b>MN</b>	<b>RO</b>	<b>RU</b>	<b>SL</b>	<b>TU</b>
1	Parliamentary budget process 20. <i>The timeliness and effectiveness of Parliament' approval process</i> 21. <i>Calendar of parliamentary approval</i> 22. <i>Amendment discipline in parliamentary process</i>	A		A	A A		A		A		A	A A		

**TABLE 3 (continuation)**

<b>C</b>	<b>Budget execution and public service pay, delivery and procurement</b>	<b>BU</b>	<b>CR</b>	<b>ES</b>	<b>GE</b>	<b>HU</b>	<b>LA</b>	<b>LI</b>	<b>MO</b>	<b>MN</b>	<b>RO</b>	<b>RU</b>	<b>SL</b>	<b>TU</b>
1	Organization of budget execution 23. <i>Responsibility of line ministries, local governments, program managers</i> 24. <i>Capacity of financial directorates</i>		A		A			A		B				
2	Cash and debt management 25. <i>The quality of a commitment control and registration in TSA</i> 26. <i>The quality of cash-flow management</i>	A	A	A	A A	B	A	A	A					
3	Reallocations and carry-overs 27. <i>The procedure for budget resources reallocation</i> 28. <i>The procedures for budget carry-overs</i>	A	B		A	B	A	B	A B	A	A	B	A	A
4	Budget monitoring and reporting 29. <i>Highlight program results in budget reporting</i> 30. <i>The status of continuous updates and control</i> 31. <i>Timeliness in updating documentation</i>	C			A	C A		A A		A	A			
5	Fiscal relations, grants, equalizations and transfers 32. <i>Integration of all levels of government in Treasury Single Account (TSA)</i> 33. <i>The quality of criteria for transfers and equalization system</i>	A	A		B	A			A	A	B	A	A	A
6	Public employment and civil service													
7	Public Procurement, Public-Private-Partnership (PPP) and privatisation 34. <i>Strengthen supervision of public procurement and PPPs</i>	A		A			A					A		A

**TABLE 3A (continuation)**

<b>D</b>	<b>Audit and accountability</b>	<b>BU</b>	<b>CR</b>	<b>ES</b>	<b>GE</b>	<b>HU</b>	<b>LA</b>	<b>LI</b>	<b>MO</b>	<b>MN</b>	<b>RO</b>	<b>RU</b>	<b>SL</b>	<b>TU</b>
1	External audit <i>35. The level of independence of the State Audit Institutions / High state audit control</i>	A			A	A	A							

**Note:** **A** - Finalized activities; **B** - Partially finalized activities; **C** – Poor finalized or failed activities; assigned weights in analyzing weighted finalized activities A – 1, B – 0.5; Albania and Ukraine did not respond to the Questionnaire.

**Legend:** **BU** - Bulgaria; **CR** – Croatia; **ES** - Estonia; **GE** - Georgia; **HU** - Hungary; **LA** - Latvia; **LI** - Lithuania; **MO** - Moldova; **MN** - Montenegro; **RO** - Romania; **RU** - Russia; **SL** - Slovenia; **TU** - Turkey.