Budget Transparency and Fiscal Performance: Do Open Budgets Matter?

Transparentnost rozpočtu a fiskální výkonnost: mají otevřené rozpočty vliv?

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Abstract

Existing published research into the relationship between budget transparency and fiscal performance confirms the expectations that higher budget transparency is associated with smaller budget deficits and lower public debt. However, our previous research did not bring such clear results but raised a fundamental question: Why should greater transparency improve fiscal performance? The objective of this paper is to re-evaluate the relationship between budget transparency and fiscal performance. Based on the literature review we have identified three channels through which increased transparency may limit excessive public expenditure resulting in budget deficit and public debt: (1) reduced fiscal illusion, (2) decreased information asymmetry between politicians and voters which may improve accountability and increase political competition, and (3) strengthening in the enforcement of fiscal rules. The results of statistical analysis (conditional means analysis for 2008, correlation and regression analysis for 2003 to 2009) did not prove a significant negative relationship between budget transparency, measured by the Open Budget Index, and budget deficit or public debt. We found a negative and statistically significant relationship between corruption and budget transparency.

Keywords

budget transparency, fiscal performance, Open Budget Index

JEL Codes

D73, H60

Abstrakt

Stávající výzkum vztahu transparentnosti rozpočtu a fiskální výkonnosti potvrzuje očekávání, že vyšší transparentnost rozpočtu souvisí s menším rozpočtovým deficitem a nižším veřejným dluhem. Náš předchozí výzkum nepřinesl tak jednoznačné výsledky a otevřel zásadní otázku: Proč by měla vyšší transparentnost zlepšovat fiskální výkonnost? Cílem tohoto článku je zhodnotit vztah mezi transparentností rozpočtu a fiskální výkonností. Na základě obsahové analýzy literatury jsou identifikovány tři procesy, díky kterým může větší transparentnost omezit nadměrné veřejné výdaje vedoucí k rozpočtovému deficitu a veřejnému dluhu: (1) omezení fiskální iluze, (2) snížení informační asymetrie mezi politiky a voliči, která zvýší odpovědnost politiků a konkurenci mezi politiky a (3) posílení vymahatelnosti fiskálních pravidel. Výsledky statistické analýzy (analýza podmíněných průměrů pro rok 2008 a korelační a regresní analýza pro období 2003-2009) nepotvrdily existenci významného negativního vztahu mezi transparentností rozpočtu měřenou Indexem otevřeného rozpočtu a rozpočtovým deficitem a veřejným dluhem. Současně jsme

potvrdili statisticky významný negativní vztah mezi transparentností rozpočtu a mírou korupce.

Klíčová slova
transparentnost rozpočtu, fiskální výkonnost, Index otevřeného rozpočtu

Introduction

Existing published research into the relationship between budget transparency and fiscal performance confirms the expectations that budget transparency is associated with smaller budget deficits and lower public debt. However, our previous research (see Sedmihradská, Haas and Štefek, 2011) did not bring such clear results but raised a fundamental question: Why should greater budget transparency improve fiscal performance?

The objective of this paper is to evaluate the relationship between budget transparency and fiscal performance. In order to fulfill this objective we raised and answered four research questions:

1. What are the main reasons why excessive public expenditure results in budget deficit and public debt and how can these be limited by improved budget transparency?
2. What kind of relationships have been proved in research published to date?
3. Do countries with higher ranking in the Open Budget Survey show lower budget deficit or smaller public debt?
4. Is higher corruption associated with lower budget transparency?

In order to answer the first two questions we underwent a detailed literature review. The answer to the third question is based on statistical analysis (conditional means analysis for 2008 and correlation and regression analysis for 2003 to 2009). Budget transparency is measured by the Open Budget Index and fiscal performance data are taken from the International Monetary Fund (2011). The last question is answered based on correlation analysis. Corruption is measured by the Corruption Perceptions Index (see Transparency International, 2011).

The next section of the paper deals with the relationships between fiscal institutions, budget transparency and fiscal performance and shows three channels through which increased transparency may limit excessive public expenditures resulting in budget deficit and public debt. It also summarizes the results of the existing research into budget transparency impacts on fiscal performance. Finally, there is a brief discussion about the relationships between corruption, transparency and fiscal performance. The third section describes the data and methods used and the final section presents and discusses the results of the provided analysis.

1 Fiscal Institutions, Budget Transparency and Fiscal Performance

Extensive research into the effects of political and institutional factors on fiscal performance, such as budget deficit and public debt, has been carried out in the past three decades. Results obtained confirm without any doubt that institutions do really matter.

The term "institutions" is very broad and encompasses any rule or procedure which may influence the decision-making regarding public budgets. Among the constitutional institutions belong the rules of election or the form of government (see Persson and Tabellini, 2003). "Budget institutions" comprise rules and regulations according to which budgets are prepared, approved and implemented, e.g., the character of the relationship between executive and legislature or existence of numerical targets or multiyear budgeting (see Alesina and Perotti, 1999, p. 14). A recent detailed review of the existing research about the relationship of institutions and fiscal performance and fiscal sustainability is offered for example in Rose (2010).

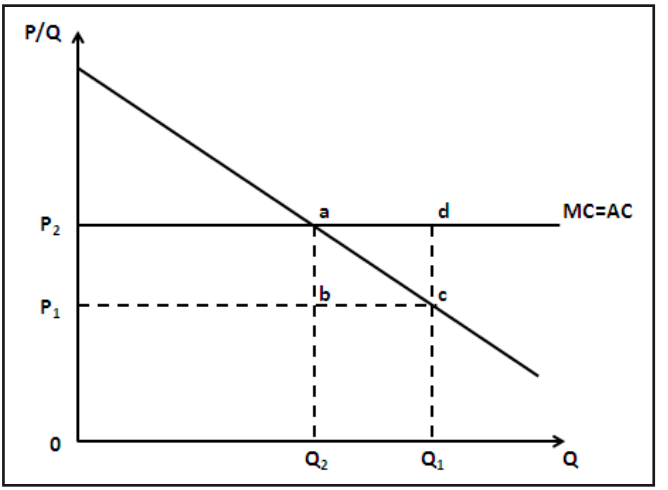
Budget transparency is usually defined as full disclosure of all relevant fiscal information in a timely and systematic manner (see OECD, 2002). Kopits and Craig (1998) define fiscal transparency as "an openness toward the public at large about government structure and functions, fiscal policy intentions, public sector accounts, and projections. It involves ready access to reliable, comprehensive, timely, understandable, and internationally comparable information on government activities (…)"[1]. Budget transparency is one of the features of the institutions shaping the environment of the budgetary process (see von Hagen, 2007, pp. 29 and 31).

There are three main reasons for the inefficiency of resource allocation which originates in the framework of the budgetary process: fiscal illusion, deficit bias and misuse of public funds (see von Hagen and Harden, 1994). The first two reasons are quite similar to each other: in both cases citizens underestimate the true price of public good which leads to oversupply of that good, i.e., to excessive public expenditures and consequent debt financing. In the case of fiscal illusion citizens fail to recognize the total tax burden and in case of the deficit bias the future obligations are discounted at an excessive discount rate. The third reason is a consequence of the principal-agent relationship between citizens and politicians.

The impact of fiscal illusion and the deficit bias is shown in Figure 1. P_2 and Q_2 show the tax price and the desired quantity of public good in case fiscal illusion is not present. The total budget (expenditures = revenues) is the area $0Q_2aP_2$. In case of fiscal illusion or deficit bias the perceived price falls to P_1, desired quantity grows to Q_1. At this moment the perceived budget is the area $0Q_1cP_1$, however the real budget (expenditures) is $0Q_1dP_2$. The area P_2P_1cd is the excessive budget (expenditures – revenues = deficit). We can observe a mix of different forms of fiscal illusion specified by Fasora (2012, pp. 143-145): the public does not recognize the total tax burden (i.e., tax illusion) or full costs of government borrowing (i.e., debt illusion) and it believes that the benefits of public expenditures are higher than the real relationship price = tax (i.e., expenditure illusion).

1 *KOPITS, G.; CRAIG, J. (1998), p.1.*

Figure 1: Fiscal illusion and deficit bias



Source: Dollery and Worthington (1996, p. 263).

Improved budget transparency could limit the difference between the real tax price P_2 and the perceived tax price P_1, which would lead to a smaller excessive budget.

The decision making process about public finances has the character of a principal-agent relationship as the voters delegate the power to elected politicians. This creates space for politicians to behave differently from voters desires. Improved transparency can limit this behavior through improved accountability and increased political competition (von Hagen, 2007, p. 37).

Increased transparency enables voters to better understand the budget, i.e., the financial plan of the government, and to evaluate the actual performance of the government. It reduces information asymmetry: the more voters know about and understand the budget process the less politicians can act strategically and use fiscal deficits and excessive expenditures to achieve opportunistic goals. Lack of budget transparency may increase voters' confusion and reduce politicians' commitment to be fiscally responsible (Benito and Bastida, 2009, p. 405). Thus the budget transparency increases the accountability of the politicians.

Budget transparency may increase political competition as the conditions for both the incumbent (i.e., politicians currently in the office) and the competing candidates (i.e., currently in the opposition) get closer. The information advantage of the incumbent will decrease and the promises of the competing candidates will be more realistic (see von Hagen, 2007, p. 37).

Nowadays, many countries use fiscal rules, such as expenditure ceilings, deficit targets or tax ceilings, as a tool to safeguard fiscal sustainability (see Joumard et al., 2003, p. 120). These fiscal rules can only lead to fiscal discipline if they are backed by transparent reporting. Otherwise they create various "perverse" incentives. Fiscal transparency is essential for enforcement of fiscal rules.

The above presented arguments show that expectations that improved budget transparency is associated with better fiscal performance are justified.

Table 1 lists four recent studies into the relationship between budget transparency and fiscal performance together with a summary of the applied methods and main findings. All studies were cross-sectional and took place between 1999 and 2005. Researching of the influence of budget transparency on fiscal performance required the establishment of a reliable budget transparency indicator, which would allow comparison across countries and time. All authors constructed their own budget transparency indicator using internationally comparable data sources (OECD questionnaire or database and IMF Reports on the Observance of Standards and Codes - ROSCs). Results of different budget transparency indicators comparison that were provided by De Simone (2009, Tab. 2) show, however, substantial differences among them. For example the correlation coefficient between index of Alt and Lassen (2003) and index of Benito and Bastida (2009) amounts to only 0.316 and is statistically insignificant. The comparison of the coverage of IMF, OECD and Open Budget Index (OBI) transparency standards provided by Popelářová (2012, p. 45) shows that the coverage of the IMF Code is the broadest and that OECD and OBI overlap by almost 80%.

Table 1: Existing research on the relationship between budget transparency and fiscal performance

Authors	Fiscal performance indicator	Transparency indicator	Countries	Method	Results
Alt and Lassen (2003)	General government debt/GDP (1999)	Own indicator based on OECD questionnaire (1999)	19 advanced	Multiple regression	Significant (0.05), negative, transparency and debt
Benito and Bastida (2009)	Government debt/GDP Budget balance/ GDP (2003)	Own indicator based on the OECD/World Bank Budgeting Database (2003)	41 advanced and developing	Correlation	Significant (0.05), positive, transparency and budget balance
Hameed (2005)	Average primary budget balance (2000-2004)	Own indicator based on IMF ROSCs (2005)	57 advanced and developing	Multiple regression	Significant (0.05), positive, transparency and average primary balance
Jarmuzek (2006)	General government debt/GDP (2005)	Own indicator based on IMF ROSCs (2005)	27 CEE countries	Multiple regression	Weak, negative, transparency and debt

Source: own compilation based on the listed studies.

With only one exception (Jarmuzek, 2006) the studies have proved the expected relationship: better transparency is associated with higher budget balance (= lower budget deficit) and lower public debt. Jarmuzek (2006, p. 11) concludes that there is "no strong statistical evidence for importance of fiscal transparency"[2] in transition economies.

2 *JARMUZEK, M. (2006) p. 11.*

Lack of transparency is one of the main factors leading to corruption (see Tanzi, 1998, p. 569) and corruption reduces the overall economic efficiency (see Grochová and Otáhal, 2012) including excessive public expenditures. Empirical evidence confirms the relationship between transparency and corruption. For example Bastida and Benito (2007, p. 690) found that "the less corrupt a country is, the more transparent its budget reports are"[3]. Corruption can among others affect tax administration and public spending decisions. A corrupted tax administration is unable to collect tax revenues efficiently, i.e., public revenues are lower than expected. At the same time corruption may increase public expenditure at least through investment projects, distorted in both size, composition, and public procurement (see Tanzi, 1998, pp. 567-568). These negative effects of corruption lead to lower budget balances, i.e. inferior fiscal performance.

2 Data and Methods

The data used in our analysis come from three sources: The data on fiscal transparency came from the results of the Open Budget Survey, which is available electronically at the web page of the Open Budget Partnership (2010a). Data on fiscal performance comes from the International Monetary Fund (2011) World Economic Outlook Database from April 2011. Data on corruption came from Transparency International (2011).

For the purposes of evaluation into budget transparency we have used the Open Budget Index for the years 2006, 2008 and 2010. The Open Budget Index (OBI) is computed using the data from the Open Budget Survey which has been compiled from questionnaires completed for each country by independent budget experts not associated with the national government. The Survey in over 120 questions examines the availability of eight key budget documents and their comprehensiveness, the extent of oversight provided by legislatures and supreme audit institutions and opportunities available to the public to participate in national budget decision-making processes (see Open Budget Partnership, 2010).

Descriptive statistics of OBI are shown in Table 2. During the analyzed years the number of surveyed countries (N) grew from 60 to 94 (93 analyzed; due to lack of fiscal data we have excluded East Timor from the analysis). Based on the OBI countries are divided into 5 groups: scant or no information (0-20), minimal (21-40), some (41-60), significant (61-80) and extensive (81-100) (see Open Budget Partnership, 2010). The ranking of many countries has changed, sometimes substantially. This explains why the correlation coefficient is only between 0.747 and 0.827 for the OBI in different years. OBI tends to be higher in richer countries; the correlation coefficient of OBI in 2010 and GDP per capita in 2008 is 0.532.

3 BASTIDA, F.; BENITO, B. (2007), p. 690.

Table 2: Descriptive statistics of OBI

	N	Mean	Min	Max	Std. Dev.	Number of countries					Correlation	
						scant or no	minimal	some	significant	extensive	obi 2008	obi 2010
obi2006	60	45.500	3	89	21.781	8	15	23	8	6	0.747*	0.827*
obi2008	83	40.434	0	88	24.684	23	15	26	15	4		0.802*
obi2010	93	42.301	0	92	24.644	22	18	33	13	7	0.802*	

*Note: * correlation is significant at 0.01 %.*
Source: own calculations.

Fiscal performance was evaluated using relevant indicators available in the International Monetary Fund (2011) World Economic Outlook Database. Table 3 lists the applied variables together with a short description.

Table 3: Fiscal performance variables

Subject Description	Subject Notes	Units
General government gross debt	Gross debt consists of all liabilities that require payment or payments of interest and/or principal by the debtor to the creditor at a date or dates in the future.	Percent of GDP
General government net lending/borrowing	Net lending (+)/ borrowing (-) is calculated as revenue minus total expenditure.	Percent of GDP
General government primary net lending/borrowing	Primary net lending/borrowing is net lending (+)/borrowing (-) plus net interest payable/paid (interest expense minus interest revenue).	Percent of GDP
Gross domestic product per capita, current prices	GDP is expressed in current U.S. dollars per person. Data has been derived by first converting GDP in national currency to U.S. dollars and then dividing it by total population.	U.S. dollars
Gross domestic product, constant prices	Annual percentages of constant price GDP are year-on-year changes; the base year is country-specific.	Percent change
Unemployment rate	Unemployment rate can be defined by either the national definition, the ILO harmonized definition („unemployed" are those who are currently not working but are willing and able to work for pay, and have actively searched for work), or the OECD harmonized definition (unemployment rate gives the number of unemployed persons as a percentage of the labor force).	Percent of total labor force

Source: International Monetary Fund (2011), World Economic Outlook Database.

Missing data has been supplied from Eurostat in the case of unemployment rate for Bulgaria and Sweden and in the case of general government primary net lending/borrowing for Poland and Romania. Data on unemployment rate for Turkey came from OECD.

The OBI indicator is the publishing year, however, the evaluation reflects the transparency of the budget document for one or two years before publishing, thus the OBI 2006 reflects the situation in 2004 and 2005 for most of the countries. As the OBI is published biannually we have naturally used the same OBI for two years.

We have used multiple methods in order to find out whether there is a relationship between budget transparency and budget balance and public debt.

First we focused on the cross-sectional research: we undertook analysis of conditional means for the year 2008 and correlation analysis for the years 2004-2009 in the software STATISTICA 7.1.

For the longitudinal research we decided to use, similarly to our previous research (see Nitschová, 2001), the model of Roubini and Sachs (1989), which allows evaluation of the factors influencing annual budget deficit (i.e., the change of the debt to GDP ratio):

$$d(b_{it}) = a_0+a_1.d(b_{it-1})+a_2.d(r_{it})+a_3.d(q_{it})+a_4.d(u_{it})+a_5 OBI_{it}+v_{it}, \qquad (1)$$

where

- $d(b_{it})$ is the difference between general government gross debt as a % of GDP in the years t a t-1;
- $d(b_{it-1})$ is the difference between general government gross debt as a % of GDP in the years t-1 and t-2;
- $d(r_{it})$ is difference between the real interest rate in the years t and t-1[4];
- $d(q_{it})$ is the difference in the percent change of the gross domestic product in constant prices in the years t and t-1;
- $d(u_{it})$ is the difference in the unemployment rate in the years t and t-1; and
- OBI_{it} is the Open Budget Index.

For estimation of the model we have used panel data fixed-effects model analysis in the software Gretl 1.9.2. The model is estimated for 18 countries (Brazil, Bulgaria, Chad, Costa Rica, Croatia, Czech Republic, Egypt, France, Jordan, Nepal, Norway, Poland, Romania, Slovenia, Sweden, Turkey, United Kingdom and United States). For the other countries data were not available for the whole period or for all variables.

4 *First, we calculated the interests paid (as a % of GDP) as the difference between general government net lending/borrowing and general government primary net lending/borrowing (both as a % of GDP). Second, we calculated the nominal interest rate as a share of the interests paid in public debt (both as a % of GDP). Third we have adjusted the nominal interest rate for inflation.*

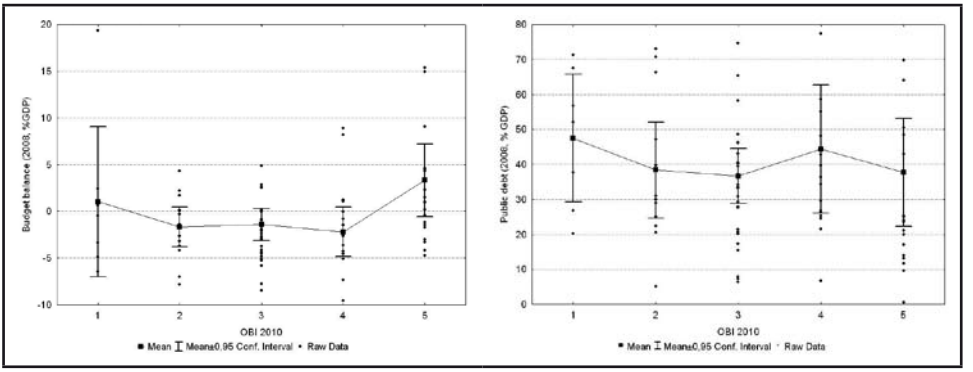
For measuring of the relation between corruption and public budget transparency we use Corruption Perceptions Index which is published by Transparency International every year. It can reach values from 0 (the highest rate of corruption) to 100 (the lowest rate). We have undertaken correlation analysis for the years 2006, 2008 and 2010 in the software STATISTICA 7.1.

3 Results

First we present the results of the cross-sectional analysis into the relationship between budget transparency measured by the OBI and budget balance and public deficit. After this we present the results of the estimation of equation (1).

The figure 2 of the conditional means shows that the budget balance is decreasing, (i.e., budget surplus turns into budget deficit between the countries with extensive (1) and significant (2) budget transparency) with the exception of the group of countries with scant or no transparency, which shows the highest budget balance. With regard to the fact, that these countries provide hardly any fiscal data, the quality of the provided data is extremely questionable. Analysis of variance proved that there were significant differences in the budget balance among the five groups and the LSD (least significant difference) test proved that differences between the last group (5) and all the remaining groups except the first one (i.e., 2, 3 and 4) are significant at 5 % level. The analysis of the conditional means of the public debt did not prove any significant differences between the groups of countries based on their transparency level.

Figure 2: Average budget balance and public debt in different transparency groups (2008)



Note: Based on the OBI countries are divided into 5 groups: 1 = extensive (81-100), 2 = significant (61-80), 3 = some (41-60), 4 = minimal (21-40) and 5 = scant or no (0-20). Outliners, i.e. budget surplus above 20 % of GDP (1 case), budget deficit above 10 % of GDP (1 case) and public debt above 80 % of GDP (4 cases), are not shown for ease of presentation.
Source: own presentation.

Table 4 shows the results of the correlation between OBI and budget balance (general government net lending/borrowing) and OBI and public debt (general government gross debt) for the years 2004 and 2009. The expected relationship (+ for budget balance and –

for public debt) can be found only in a few cases: budget balance in 2004, 2007 and 2009 and public debt in 2004 and 2005. The results shown are not statistically significant at the 5% level with only two exceptions – budget balance in 2006 and 2008. However, in these cases the sign is opposite to the expectation.

Table 4: Correlation results: Budget balance and government debt (% GDP) and OBI (2004-2009)

Y	X	r(X,Y)	r2	t	p	N	
balance2004	obi2006	0.0548	0.0030	0.4178	0.6777	60	Y = -1.7635+0.0091*X
balance2005	obi2006	-0.0041	0.0000	-0.0314	0.9750	60	Y = -0.2299-0.0009*X
balance2006	obi2008	-0.302*	0.0912	-2.8502	0.0055	83	Y = 6.4878-0.1074*X
balance2007	obi2008	0.0253	0.0006	0.2280	0.8202	83	Y = 1.0954+0.0146*X
balance2008	obi2010	-0.242*	0.0585	-2.3789	0.0195	93	Y = 2.4029-0.0637*X
balance2009	obi2010	0.1204	0.0145	1.1569	0.2503	93	Y = -6.1568+0.0208*X
debt2004	obi2006	-0.1846	0.0341	-1.3415	0.1857	53	Y = 66.1715-0.2524*X
debt2005	obi2006	-0.1901	0.0361	-1.3964	0.1685	54	Y = 62.0766-0.2468*X
debt2006	obi2008	0.1129	0.0127	0.9774	0.3315	76	Y = 38.1844+0.1877*X
debt2007	obi2008	0.1211	0.0147	1.0494	0.2974	76	Y = 33.8007+0.1361*X
debt2008	obi2010	0.0241	0.0006	0.2209	0.8257	86	Y =38.341+0.0262*X
debt2009	obi2010	0.0508	0.0026	0.4659	0.6425	86	Y = 41.2135+0.0571*X

*Note: * correlation is significant at 0.01 %.*
Source: own calculations.

The results of the estimated equation (1) presented in Table 5 shows that the model predicts reasonably well the budget deficit and that all independent variables have the correct sign, i.e., the budget deficit is higher as economy slows down, unemployment and interest rates increase and the budget deficit in the previous year is high. The impact of budget transparency is negative, i.e., higher transparency is associated with lower budget deficit. However, our results do not allow us to reject the null hypothesis that budget transparency does not influence budget deficit.

Contrary to most of the previous research we did not confirm a clear relationship between budget transparency and budget deficit or public debt. The main contribution of our paper is in the longitudinal design of the research and the application of an independent, internationally recognized measure of budget transparency.

The weakest point of the research is in the selection of countries used in the longitudinal research. While the cross-sectional research (correlation analysis) included 53 to 93 countries, there were included only 18 countries in the longitudinal research (regression analysis) and this selection was purely dependent on the availability of the whole set of fiscal and economic data.

The answer on the fourth question can be seen in Table 6. We see strong and significant correlation between corruption and budget transparency in all three years with available data. This finding complies with theoretical assumptions (see Tanzi 1998) and earlier empirical findings (see Bastida and Benito, 2007).

Table 5: Fixed-effects estimates of budget deficit - $d(b_{it})$ (18 cross-sectional units, 6 time periods, 108 observations)

	(1)		(2)		(3)	
const	6.2694		6.6811		6.3652	
	(4.5737)		(4.2897)		(4.2995)	
q(t)	-0.3169	**	-0.3146	**	-0.3039	**
	(0.0850)		(0.0842)		(0.0841)	
u(t)	2.0052	**	2.0271	**	2.0914	**
	(0.3420)		(0.3305)		(0.3280)	
r(t)	0.1038		0.1046			
	(0.0811)		(0.0806)			
OBI	-0.1151		-0.1225	*	-0.1174	
	(0.0763)		(0.0708)		(0.0710)	
b(t-1)	0.0268					
	(0.0989)					
Adjusted R-squared	0.5809		0.5854		0.5821	
Durbin-Watson statistic	2.1197		2.0829		2.0962	

*Note: std. error reported in parenthesis, ** significant at 0.01 %, * significant at 0.1 %.*
Source: own calculations.

Table 6: Corruption Perceptions Index and Open Budget Index

Year	No. of countries	Corr. coeff.	p-value
2006	59	0.7052	0.000
2008	78	0.5029	0.000
2010	92	0.6532	0.000

Source: own calculations.

Conclusions

Institutions, including budget transparency, influence fiscal performance. There are at least three channels through which increased transparency may limit excessive public expenditures resulting in budget deficit and public debt: (1) reduction of fiscal illusion, (2) a decrease of information asymmetry between politicians and voters which may improve accountability and increase political competition, and (3) stronger enforcement of fiscal rules.

The results of statistical analysis which combined conditional means analysis for 2008 and correlation and regression analysis for 2004 to 2009 did not prove the expected significant negative relationship between budget transparency, measured by the Open Budget Index, and budget deficit or public debt. The main reason that increased budget transparency did not limit budget deficit and public debt in the expected magnitude is the fact that transparency by itself, i.e., without engagement of civil society or advocacy groups, is insufficient to improve governance (Open Budget Partnership, 2013, p. 4). The OBI

score measures mainly the timely availability of budget information. The assessment of conditions for public participation was included for the first time in OBI 2012.

The discrepancy between our findings and findings of other studies (Alt and Lassen (2003), Benito and Bastida (2009), Hameed (2005) and to some extend Jarmuzek (2006)) has several reasons: country sample, evaluated time period and budget transparency indicators. Our results are influenced by the fact that OBI and also our samples include many poor and very poor countries and many developed countries are missing. The ability or capacity to borrow is higher in rich countries which are more transparent. All the cited studies deal with the first five years of this century, when the variability of the debt levels was higher. While in 2008 almost 70% of the countries operated with public debt lower than 50% of GDP in 2000 it was only 31%. Many countries managed to considerably lower their debt without improving budget transparency. The definitions of applied budget transparency indicators differ. The OBI is narrower than indicators based on the IMF Code of Good Practices on Fiscal Transparency and does not evaluate budget transparency outside the central government. The mismatch in the coverage of the OBI and the indicators evaluating fiscal performance of the general government may weaken the relationship between them.

In accordance with previous research we found negative and statistically significant relationships between corruption, measured by Perception Corruption Index, and public finance transparency, measured by Open Budget Index.

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