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CCAM Countries' Fiscal Balance: Towards International Standards

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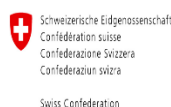


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Acronyms and Abbreviations

ACCA	Association of Chartered Certified Accountants
BA	Budgetary Organizations
BB	Budget Bill
BCG	Budgetary Central Government
CCAM	Caucasus, Central Asia, and Mongolia
CCAMTAC	Caucasus, Central Asia, and Mongolia Regional Capacity Development Center
Cert IPSAS	Certificate in International Public Sector Accounting Standards
CIPFA	Chartered Institute of Public Finance and Accountancy
CoA	Charter of Accounts
COFOG	Classification of the Functions of Government
DMFAS	Debt Management Financial Analysis System
FMIS	Financial Management Information System
FTE	Fiscal Transparency Evaluation
EBU	Extrabudgetary Units
GDP	Gross Domestic Product
GFS	Government Finance Statistics
GFSM 2014	Government Finance Statistics Manual 2014
GFSY	GFS Yearbook Database
GG	General Government
IFAC	International Federation of Accountants
IFS	International Financial Statistics
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
ISS	International Statistical Standards
LG	Local Government
MCD	Middle East and Central Asia Department of the IMF
MoF	Ministry of Finance
MOU	Memorandum of Understanding
CB	Central Bank
NCO	Non-commercial Organizations
NPI	Non-profit Institutions
NPISH	Non-profit Institutions Serving Households
NSA	National Statistical Agency

OBA	Off-budget Accounts
PS	Public Sector
PSDS	Public Sector Debt Statistics
PSDS 2011	Public Sector Debt Statistics Guide 2011
PSIT	Public Sector Institutional Table
SDR	Special Drawing Rights
SECO	Swiss State Secretariat for Economic Affairs
SNA 2008	System of National Accounts 2008
SOE	State-owned Enterprise
SSF	Social Security Fund
STA	Statistics Department of the IMF
TA	Technical Assistance
WB	World Bank

Introduction

This regional note (Note) is the third one of the series of Regional Notes on Government Finance Statistics (GFS) and Public Sector Debt Statistics (PSDS) published by the Caucasus, Central Asia, and Mongolia Regional Capacity Development Center (CCAMTAC).

The first Note published in 2022¹ provided a general overview of the compilation of GFS and PSDS by CCAMTAC members. The Note published in 2023² described practices in the sector delimitation in the Caucasus, Central Asia, and Mongolia (CCAM) region.

This Note focuses on the general aspects of the practice applied by CCAM countries regarding their fiscal reporting with respect to their national concepts and international statistical standards (ISS). The aim of the note is to:

- i. describe the main concepts of fiscal indicators based on the ISS;
- ii. analyze the current practices of measuring fiscal deficit reporting by CCAM countries and illustrate the main differences between nationally-based fiscal reporting and the GFS;
- iii. suggest ways to enhance the alignment of countries' reporting with ISS.

Though most of the countries regularly report annual fiscal balance in the ISS presentation, the quality of the presented data needs to be improved to comply with the ISS principles and definitions. The notion of government finance in ISS differs from the notion of government budget in various aspects. The government budget often has limitations with respect to: i) the basis of recording; ii) institutional units' coverage; iii) balance sheet information and iv) valuation. All these elements hamper international comparison of nationally based fiscal balance. The text of the note explains how the countries' national budget execution reports differ from ISS concepts and provides numerical and graphical illustration of these differences.

The CCAM countries have worked towards shifting their current practices of measuring key fiscal indicators and balances to the ISS, represented by the *Government Finance Statistics Manual 2014 (GFSM 2014)* and *Public Sector Debt Statistics Guide 2011 (PSDS 2011)*. They are aligned with the 2008 System of National Accounts (2008 SNA) and serve producing fiscal statistics for international comparison. Compliance with the *GFSM 2014* framework allows policymakers to plan, monitor, and evaluate fiscal policy and fiscal risks based on the full picture of government operations and its assets and liabilities.

To move towards the international practices of measuring fiscal aggregates, and, in particular the fiscal balance and debt, the CCAM countries needed to prepare realistic timelines for budgetary and accounting reforms within available capacity constraints. Such reforms are considered an advanced practice on the fiscal reporting spectrum and require a strong commitment from countries' leadership. A roadmap guiding their reforms need to include various dimensions: capacity, systems, reporting standards and formats, accounting policies and practices).

¹ [CCAMTAC Regional Note GFS PSDS.pdf \(imf.org\)](#)

² [Regional Note on GFS and PSDS.pdf \(imf.org\)](#)

Section 1. Fiscal Balance Compilation in line with International Statistical Standards

Public finances can be reported in various formats which all serve their purposes: i) budget reporting, based on national fiscal rules; ii) financial reporting, usually in the form of national accounting rules based on International Public Sector Accounting Standards (IPSAS) and iii) statistical reporting, standardized by *GFSM 2014*. Most CCAMTAC countries already disseminate their government finances in the format of *GFSM 2014*. As their national budget reporting deviates from the *GFSM 2014* concepts and definitions, the countries need to make additional adjustments in their national figures.

A. DEFINITION AND PRINCIPLES IN THE GFSM FRAMEWORK

Main Fiscal Statements, Balances, and Indicators

Main fiscal indicators: revenues, expenditures, fiscal balance, or net lending/borrowing (surplus/deficit equal to financing), are vital for policy purposes. Based on the methodology used and the units covered for their compilation, different measurement can be obtained.

The *GFSM 2014* is an integrated system which links flows and stocks and incorporates accrual and cash recording. The relationships that underpin the *GFSM 2014* analytical framework are summarized in accrual-based and cash-based statements:

- *Statement of Sources and Uses of Cash*, which shows the total amount of cash generated or absorbed by current operating activities, transactions in nonfinancial assets and transactions involving financial assets and liabilities other than currency and deposit (cash) itself.
- *Statement of Operations* presents details of transactions in revenue and expense, as well as the net acquisition of nonfinancial assets, the net acquisition of financial assets and the net incurrence of liabilities. It is the main statement for government operations, measuring fiscal performance of the government for a reporting period and its impact on the economy. It shows the main fiscal indicators and balancing items (Operating balance and Net lending / Net borrowing), as it is shown in Table 1.
- *Balance Sheet*, which presents outstanding amounts of assets and liabilities and shows Net Worth³ of the government at the end of the reporting period. It equals the stock of nonfinancial assets plus net financial worth (stocks of financial assets minus liabilities).
- *Statement of Other Economic Flows*, which presents information on Changes in Net Worth that arise from flows other than transactions (from holding gains and losses or other changes in volume). Examples are revaluations of deposits in other currency, external loans and debt write-offs.

Transactions in the *GFSM 2014* framework are recorded using double-entry accounting⁴. For compiling *Balance Sheet* countries need to implement accrual-based accounting in GG entities to

³ Net Worth of government = Total Assets (non financial + financial) – Total Liabilities. (See https://ccamtac.imf.org/content/dam/CCAMTAC/Home/Technical-Assistance/TA-Reports/CCAMTAC_Regional%20Note_GFS_PSDS.pdf for more details)

⁴ Double-entry accounting is an accounting method where each transaction is recorded in 2 or more accounts using debits and credits. A debit is made in at least one account and a credit is made in at least one other account. The total debits and credits

aggregate balance sheet information. The countries with cash-based accounting compile *Statement of Operations* (on a cash basis) and *Statement of Sources and Uses of Cash*.

TABLE 1. Statement of Operations

Main fiscal indicators and balances	
Expenditure Expense Compensation of employees Use of goods and services Consumption of fixed capital (accrual) Interest Subsidies Grants Social benefits Other expense Net acquisition of nonfinancial assets (NFA) Acquisition of NFA (+) Disposal of NFA (-) Consumption of fixed capital (-)	Revenue Taxes Taxes on income, profits and capital gains Taxes on payroll and workforce Taxes on properties Taxes on goods and services Taxes on international trade Other taxes Social Security Contributions Grants Other revenue Property income Sales of Goods and services Other revenue, n.e.c.
Operating Balance = Revenues – Expense	
Net Lending/Borrowing (Fiscal balance) = Revenues – Expenditures	
Net Lending/Borrowing (Financing) = Net acquisition of FA – Net incurrence of L	
Net acquisition of financial assets (FA) Domestic (by instruments) Monetary gold and SDR Currency and deposits Debt securities Loans Equity and investment fund shares Insurance, pension and guarantee schemes Financial derivatives and employees stock options Other accounts receivables External (by instruments as above)	Net incurrence of liabilities (L) Domestic (by instruments) Monetary gold and SDR Currency and deposits Debt securities Loans Equity and investment fund shares Insurance, pension and guarantee schemes Financial derivatives and employees stock options Other accounts payables External (by instruments as above)

Government transactions as defined by the *GFSM 2014* are classified into broad categories: “revenue”, “expenditure”, and “transactions in financial assets and liabilities”. The main *revenue* of the general government are *taxes, social security contributions, grants and other revenues*. *Expenditure* covers *expense* and *net acquisition of nonfinancial assets*. *Expense* is the operating expenditure of the government and consists of compensation of employees (wages and salaries plus social security contributions), use of goods and services, consumption of fixed capital (if accrual principle is applied), interest, subsidies, grants, social benefits and other expense.

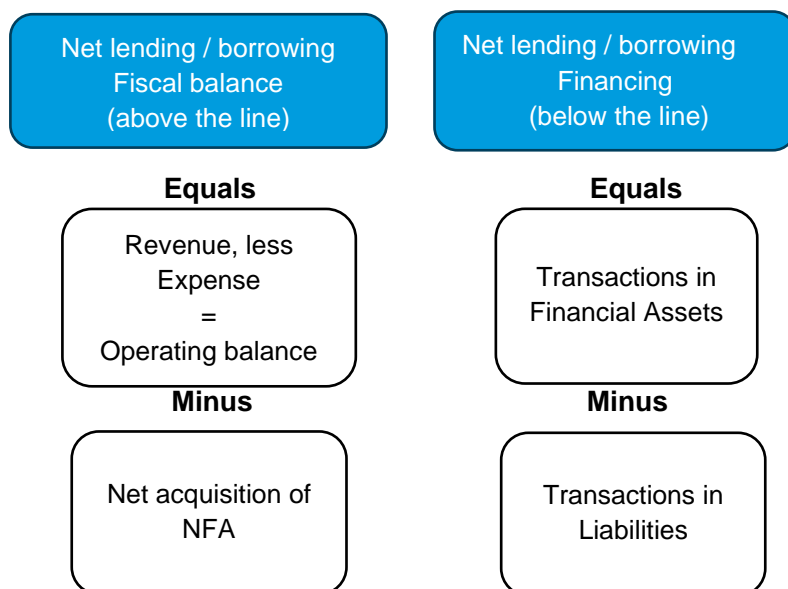
Operating fiscal balance measures government’s performance from its operational activities during the reporting period. It equals generated revenue minus expense. The operating balance can be on gross and net basis. It is reported on a gross basis when consumption of fixed capital is not available as an indicator, and the countries are only able to prepare the statement on a cash basis⁵.

must balance (equal each other).

⁵ In many countries gross fixed capital formation is calculated by the statistical offices.

The *fiscal balance* or *net lending (+)/borrowing (-)* is the fiscal indicator measuring the performance of the government. It can be compiled periodically on a monthly, quarterly, bi-annual and annual basis. In the *GFSM 2014* framework the “*fiscal surplus*” or “*net lending*” means a positive difference between total revenue and total expenditure or a positive difference between the net acquisition of financial assets and the net incurrence of liabilities. If these differences are negative, the fiscal balance turns into “*fiscal deficit*” or “*net borrowing*”.

FIGURE 1. Fiscal Balance in GFSM 2014 Terms



Net acquisition of nonfinancial assets refers to acquisitions and disposals of fixed assets (e.g., buildings, equipment, including military goods), plus the net acquisition of valuables (e.g., nonmonetary gold) and non-produced assets (such as land, good will, leases), plus inventories, minus consumption of fixed capital.

The government covers the negative difference between revenue and expenditure through financing operations called *financing* or *net transactions in financial assets and liabilities*. In the *GFSM 2014* framework, financing of a fiscal deficit consists of all financial instruments included in the GFS Statement of Operations, which can be financial assets or liabilities (see Table 1).

B. CASH AND ACCRUAL MEASUREMENT OF FISCAL INDICATORS

For the purposes of macroeconomic and fiscal analysis, the countries measure fiscal indicators on cash and accrual bases. Both measurements are important for analysis. The cash measurement of fiscal balance is used for cash and liquidity management purposes, while accrual fiscal indicators present the real fiscal stance.

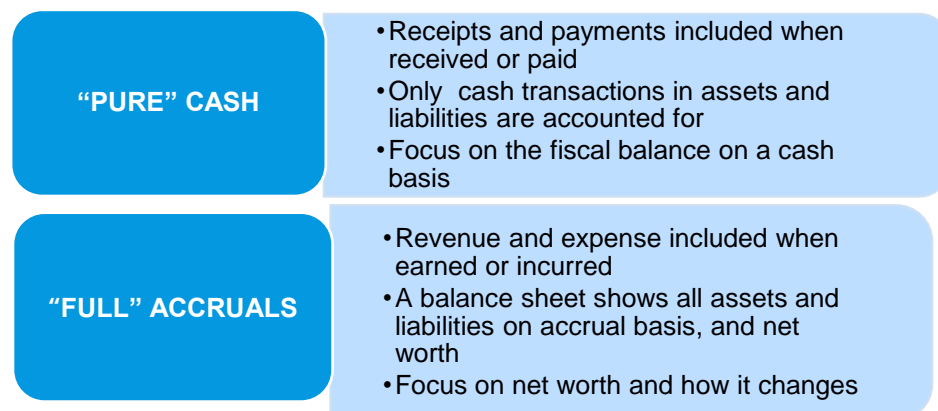
Accrual recording offers a number of benefits over cash recording in terms of fiscal transparency, accountability, and public financial management. On the other hand, compiling cash data has the advantages of simplicity, low cost, and timeliness. Cash flow statements also provide useful and generally timelier information about the liquidity situation.

Under the cash basis, revenues and expenditures are documented at the time of monetary settlement, that is, when cash is disbursed. Under the accrual basis, transactions are recorded at the time economic values are created, transformed, exchanged, transferred, or extinguished.

The accrual fiscal balance reflects the government’s full payment obligations. A government with a cash fiscal deficit that is smaller than an accrual fiscal deficit is typically behind on its payment obligations, including through generating arrears. The postponed cash payments would then increase the deficit of the following reporting period.

Accrual recording seeks to capture all assets and liabilities, as opposed to a sole focus on cash. This means that there are significant differences between the two accounting bases. Between “Pure Cash” and “Full Accruals” there is a variety of approaches, sometimes called “Modified Cash” or “Modified Accrual” which mix cash and accruals.

FIGURE 2. Key Differences between Cash and Accrual



Globally, the switch to accruals has often been accompanied by the adoption or harmonization of national accounting standards with the International Public Sector Accounting Standards (IPSAS). Those standards set out the requirements and expectations for accruals adopters. Countries moving to accruals must expand their accounting horizons and efforts in several dimensions: adding new financial statements; disclosing additional information in the notes to the accounts; covering all assets and liabilities and using appropriate valuation methods.

C. SECTOR COVERAGE

As defined in the *GFSM 2014*, GFS should cover all entities that materially affect fiscal policy. In GFS, fiscal statistics should be compiled for General Government (GG) and Public Sector (PS). Comprehensive institutional coverage of fiscal statistics reduces the incentive for governments to use certain types of entities for off-budget fiscal activity and facilitates cross-country comparisons.

Countries usually start with the compilation of GFS for budgetary central government and gradually expand the units’ coverage, by including local government (LG), social security funds (SSF) if those exist, extrabudgetary units (EBUs) and off-budget accounts (OBAs). More challenging is integrating of public corporations of non-market character in the GFS compilation. The CCAMTAC “Regional Note on delimitation of the Public Sector in CCAM Countries” describes the rules and methodology for defining GG and PS sectorization and the current situation in the CCAM region.

To improve the fiscal transparency, the countries will need to amend their budgetary legislation, improve their national budgetary presentation and coverage in the Budget Bill (BB) aligned with the *GFSM 2014* Statement of Government Operations, revise budgetary classifications and Chart of Accounts (CoA), following the main principles of the international statistical and accounting standards. The State Budget’s document (BB in CCAM countries), including the republican budget and municipal budgets, needs to be complemented by the budget of SSF, if applicable, and other GG units, aiming at presenting a consolidated picture of GG operations.

Section 2. Current Situation of Measuring Fiscal Balance in the CCAM Countries

A. FISCAL BALANCE REPORTING

Comparison of Fiscal Balance in Budget Bill (national methodology) and GFS

All CCAM countries except **Turkmenistan** regularly submit annual and some of them also high-frequency GFS to the publicly available IMF's GFS and International Financial Statistics (IFS)⁶ databases. Availability of such data allows international comparison for fiscal balance or net lending/borrowing aligned with the *GFSM 2014* methodological principles.

The coverage of annual data is GG for all CCAM reporting countries. The sector coverage of high frequency data varies: **Georgia, Kazakhstan, Uzbekistan, and Tajikistan** submit and publish their quarterly GFS for GG, **Armenia**, and the **Kyrgyz Republic** for central government (CG).

So far, all the abovementioned countries have been providing cash-based statistics. The regular annual reporting in CCAM region is limited to information on revenue, expense, transactions in assets and liabilities hence they also fill Statement of Operations and *Statement of Sources and Uses of Cash*. Four of regular annual reporters provide also data on balance sheet (**Georgia, Kazakhstan, Kyrgyz Republic and Mongolia**).

TABLE 2. Annual and high-frequency GFS in the IMF's GFSY database as of May 2024

	High-Frequency GFS	Annual
Armenia	CG	GG 2022
Azerbaijan	no data	GG 2021
Georgia	GG	GG 2022
Kazakhstan	GG	GG 2022
Kyrgyz Republic	CG	GG 2022
Mongolia *	no data	GG 2022
Tajikistan	GG	GG 2022
Turkmenistan	no data	no data
Uzbekistan *	GG	GG 2022

Note: * Data have not been validated

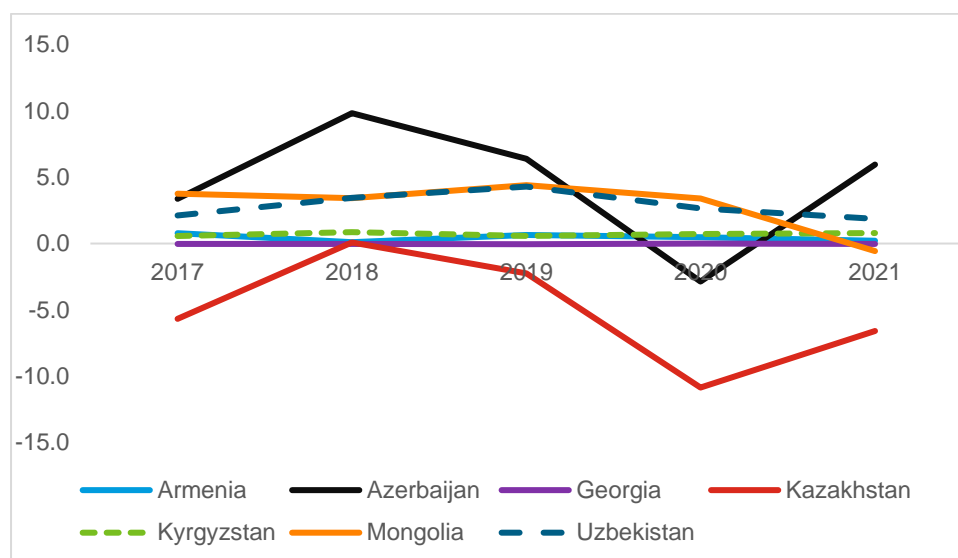
During the period 2017 – 2022, the difference between the fiscal balance of the GG in the BB and the one in line with the ISS varies between 5-6 percent of GDP for **Azerbaijan and Kazakhstan**, to around no difference for **Armenia and Georgia** (see Appendix 1). In **Kazakhstan**, the fiscal balance in the BB is net lending (fiscal surplus), while the country reports net borrowing (fiscal deficit) in *GFSM 2014* terms. In the case of **Azerbaijan**, the BB shows a deficit, while the *GFSM 2014* based balance shows a surplus. In case of **Azerbaijan and Kazakhstan**, the impact of recording of some financial transactions as “above the line” is the most significant (in 2018 for Azerbaijan and in 2020 for Kazakhstan).

The methodological differences and various levels of the implementation of the *GFSM 2014* in the budgetary framework may have significant impact on fiscal balance figures in the national methodology and its deviation from the ISS. The Figures 3 and 4 illustrate differences between the

⁶Government Finance Statistics - At a Glance - IMF Data; International Financial Statistics - Reports - IMF Data

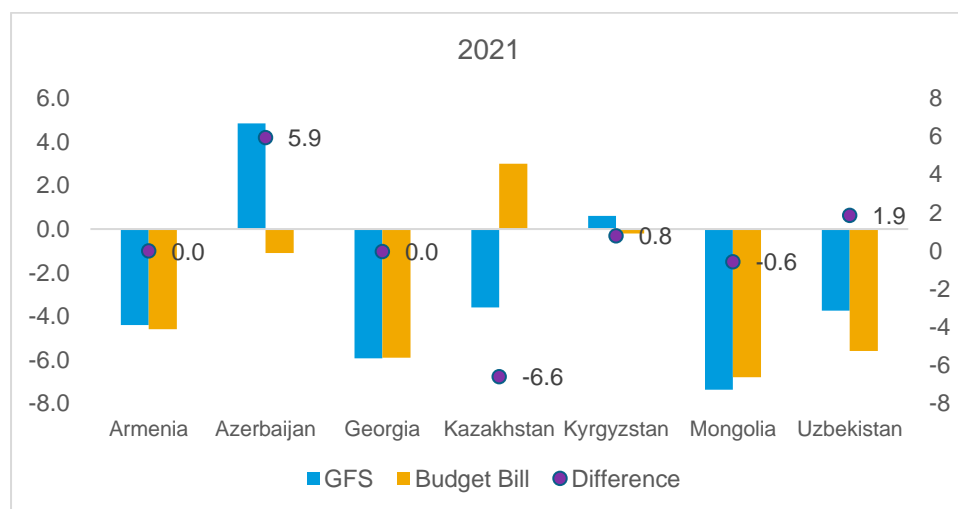
fiscal balance in GFSM 2014 and national presentations⁷.

FIGURE 3. Difference between Fiscal balance in GFSM 2014 and national presentations (in percent of GDP)



Note: Turkmenistan does not report GFS to the IMF database; for Tajikistan only data for 2021 are available.

FIGURE 4. Fiscal balance in GFSM 2014 and national presentations (in percent of GDP)



Source: CCAM countries annual GFS database, countries' budget execution reports and Metadata Questionnaire (2023)
 Note: Positive figures show how much fiscal surplus is higher in GFS than in the BB, and negative means vice versa. See more information about fiscal deficit for each country in both methodologies in Appendix 1.

Armenia and Georgia, report similar figures in both methodologies for 2021, despite methodological differences from the *GFS 2014* described below.

Methodological Differences of Fiscal Balance Measurement

Several countries consider in their national methodology some financing transactions as revenue or expenditure instead of *financing* or *transactions in assets and liabilities*.

As shown in Table 3, loans from international organizations and foreign governments are reported by national methodology as government's revenue in **Kyrgyzstan** and **Tajikistan**. The ISS recognize

⁷ Data cover budgetary central government, local governments and social security funds as relevant. In Georgia they also include non commercial organization at central government and local government level.

loans from other nonresident government or international institution as transactions in liabilities (financing) as they must be returned in the future and the government pays interest payments (expense). On the other hand, transfers received by governments from foreign governments or from international organizations, should be recorded as grants (revenue). The appropriate recording of financial aid from international institutions and their recording as grants or transactions in liabilities based on their character is important for the purposes of proper measurement of fiscal balance for fiscal analysis. **Azerbaijan, Tajikistan and Turkmenistan** treat repayments of loans as expenditures instead of transactions in liabilities. **Turkmenistan** accounts differently for loans received and their repayment. The loans received are recorded as financing, while their repayment as an expense.

To properly reflect economic substance, the recording of policy lending has to follow the rules set up in the ISS. Policy lending represents government support to foster new industries, to help corporations experiencing financial issues, including liquidity problems, or support households in line with the government’s social policy. Policy lending can come in the form of capital injections (through loans or increase in capital) or other typical policy related financial operations. Their treatment depends on circumstances under which such an operation was undertaken. In case of proof or strong indication that the amount involved is irrecoverable, such an operation should be recorded “above the line”, impacting the level of fiscal balance.

Differences between the ISS recording and the national practices of the CCAM countries exist in the recording of transactions in government’s equities in SOEs and loans from the government to SOEs and their repayments from SOEs. **Armenia, Tajikistan, and Turkmenistan** record receipts from sales of equity (e.g., privatization) as revenue instead of transactions in financial assets, as requires the guidance of ISS. **Mongolia and Uzbekistan** record loans to SOEs and their repayments as expenditures and revenues, respectively. *GFSM 2014* provides detailed rules on the recording of government transactions in equity of SOEs and on the treatment of government loans to SOE, describing in which circumstances such transactions can be recorded as revenue / expense and when to record them as financing.

TABLE 3. Financing transactions treated as revenues and expenditures in the BB of CCAM countries

Transactions in revenues and/or expenditures of BCG	Countries
Loans from abroad (e.g. investment loans)	Kyrgyzstan, Tajikistan
Repayments of loans from abroad	Azerbaijan, Tajikistan, Turkmenistan
Increase of Equity in SOEs (acquisition – e.g., increase in capital of government)	Armenia, Azerbaijan, Mongolia, Kazakhstan, Tajikistan
Sales of Equity in SOEs (e.g., privatization)	Armenia, Kazakhstan, Tajikistan, Turkmenistan
Loans to SOEs	Mongolia, Kazakhstan, Uzbekistan
Repayments from SOEs	Mongolia, Azerbaijan, Uzbekistan
Other financial transactions	Azerbaijan, Tajikistan

Source: Metadata questionnaire on fiscal deficit and debt for CCAM countries, TA GFS reports.

Other examples for recording financial transactions as revenue in the national methodology are:

- contingency funds, which are filled in by the repayment of loans by SOEs. Such transfer from the payment of loans to contingency funds is a financing transaction, but it also includes a portion corresponding to payments of interest and fees;
- transfer from the central bank (CB), which would be classified as revenue for the State budget (nonfinancial transaction);
- outstanding amounts of unused funds from previous year, which are often wrongly considered by countries as a revenue. These should be rather reflected in the balance sheet.

The analysis on the CCAM budgetary practices show that the use of the *GFSM 2014* framework for the national concept of fiscal indicators and fiscal balance still has shortcomings in some countries, and thus may hamper the analytical usefulness and comparability of the fiscal statistics.

Sector Coverage

Countries gradually expand the coverage of their fiscal statistics. **Georgia** and **Uzbekistan** have recently included entities not part of the budget in their reporting (e.g., legal entities of public law and some non-market SOEs in **Georgia**, EBFs and OBAs in Uzbekistan). **Armenia** and **Kazakhstan** have been working on the sector classification exercise to establish a list of public sector units and gradually consolidate their reporting in the GFS. This work follows up on the findings of the IMF Fiscal Transparency Evaluation (FTE) and its updates in these countries in recent years. In other CCAM countries, the financial data for EBU, OBAs, noncommercial organizations⁸ (NCOs), nonprofit institutions (NPIs) are not included in the BB, though some of these entities report to the MoF. Similarly, in the majority of countries, the data of non-market SOEs are not yet included in the compilation of GFS, although the MoF of almost all CCAM countries established a SOEs' database for management of fiscal risks containing data for those entities.

The information on fiscal balance in the CCAM region remains limited and does not reflect the real stance of the GG and PS operations. Integration of the abovementioned entities in the fiscal reporting would increase fiscal transparency and enhance fiscal analysis.

TABLE 4. Entities not included in the BB but reported to the MoF

GG entities not included in the BB, but reporting their accounts to the MoF	Countries
Extrabudgetary units at CG level	Armenia, Azerbaijan, Mongolia, Kazakhstan, Turkmenistan
Off-budget accounts at CG level	Kazakhstan, Mongolia, Turkmenistan
Non-commercial organizations at CG level	Armenia, Kazakhstan, Kyrgyz Republic, Mongolia
Non-profit institutions at CG level	Armenia, Kazakhstan, Kyrgyz Republic, Mongolia
Extrabudgetary units at LG level	Armenia, Mongolia

Source: Metadata questionnaire on fiscal deficit and debt for CCAM countries.

B. FURTHER REVISION OF FISCAL INDICATORS AND DEFICIT ALIGNED WITH THE ISS

In most of the CCAM countries the budgetary framework, including budgetary classification and CoA, are being revised to be aligned with the *GFSM 2014* and the IPSAS, respectively. The new frameworks are expected to become functional in the coming years.

Budgetary Classification

The situation of the budgetary classification varies in CCAM region: the budget classification of some countries is broadly aligned with *GFSM 2014*, but some countries still use a mixture of economic type and function for classification of expenditure or have the expenditure categories very aggregated.

Economic classification of expenditures is important, particularly for measurement of budgetary

⁸ The difference between non-commercial organizations (NCOs) and non-profit institutions (NPIs) is that NCOs usually are establishments of ministries, departments and agencies, and municipalities, which do not generate profit and are predominately financed by the government. These units statistically are non-market establishments and belong to BCG or LGs. Non-profit institutions (NPIs) can be part of GG only if they are predominately financed and controlled by the government. Otherwise, they are part of NPIs serving households (NPISHs). NPISHs are typically financed by contributions or subscription payments from a group of interested businesses.

aggregates, including fiscal deficit, and short-term projections. It is usually easiest to adopt a disaggregated approach that projects government expenditure transactions, by month or by quarter, separately for broad economic categories. Apart from its relative simplicity, this classification facilitates broader economic analysis, allowing easier simulation of the effects of varying economic assumptions or projections on the exchange rate, inflation, etc. Starting from the very simplest economic categorization, wages and salaries are nearly always paid on a well-defined timetable (weekly, biweekly, monthly, or bimonthly).

The budgetary classifications should present four different dimensions and types of inflows and outflows, following the *GFSM 2014* classification, but also incorporate specifics of the countries. The Pillar 1 of the Fiscal Transparency Handbook refers to the Fiscal Reporting and its quality. The principle 1.3.1 requires that fiscal reports classify information in ways that make clear the use of public resources and facilitate international comparisons. Four main types of budget classifications are most frequently used in budget documents: i) administrative, ii) economic, iii) functional and iv) program classification.

TABLE 5. The Four Main Types of Budget Classification

Classification	Information Provided	Standards
Administrative	Government entity (ministry, department, directorate, agency) allowed to spend the funds and accountable for their use	No international standards as it is specific to each country's institutional arrangements
Economic	Nature of revenue (tax, nontax) and expenditure (wages, subsidies, social benefits)	GFSM 2014
Functional	Purpose of the expenditure (defense, health, education)	COFOG
Program	Link between the expenditure and the associated government policies (provide water access, reduce child mortality)	No international standards as it is specific to each government's policy priorities

Source: Fiscal Transparency Handbook

The chapters of the budgetary classification should distinguish clearly economic indicators and outlays by functions (and if program budgeting is applied – by programs) aligned with the *GFSM 2014* methodological principles.

The chapters should follow the *GFSM 2014* classifications (not necessarily its exact codes). Each country can decide about the division of the chapters, nevertheless, the clear distinction between nonfinancial and financial transactions in the *GFSM 2014* terms is very important and allows compiling the GFS Statement of Operations on a cash and an accrual basis.

Georgia and **Uzbekistan** have their economic classification broadly aligned with the *GFSM 2014*. Four countries which have been revising their budgetary classifications are **Armenia, Azerbaijan, Kazakhstan, Tajikistan, and Turkmenistan**. In 2023, **Armenia** drafted amendments to the Budget Classification Law to address the methodological deviations through both changes to the CoA and additional guidance for data reporters. This might improve the quality of fiscal statistics, including the fiscal balance measurement. **Kazakhstan** is on the way to align its national budgetary classification with the *GFSM 2014*, which is also one of the recommendations of the 2023 IMF FTE. **Tajikistan** is aligning its budgetary classification with *GFSM 2014*, planning to become functional in 2025. **Turkmenistan** is currently implementing budgetary reform, including a gradual revision of the budgetary classification to comply with the *GFSM 2014* classification.

GFS vs Accounting Standards

A few countries in the world, those that embarked on accruals before IPSAS was created, base their standards on the International Financial Reporting Standards (IFRS) or similar standards for

commercial enterprises, adapted⁹ for the PS. In practice, there is a negligible difference between this approach and IPSAS. The IPSAS have been harmonized with the *GFSM 2014* and despite the remaining differences the accounting based on the IPSAS is a good step towards compilation of GFS aligned with the ISS. Typically, the more demanding IPSAS standards are not converted, or are set aside for later inclusion in national standards. Adaptation is therefore best suited to gradualist transition.

The CoA reform is going in the CCAM countries with different pace. Work is underway to revamp the CoA with the international accounting standards, but further work is needed to ensure that it can support reporting aligned with IPSAS and *GFSM 2014* standards, which can be adopted or adapted.

Box 1: IPSAS or IFRS Adoption in the CCAM countries

Armenia — The Law on Accounting of Public Sector Organizations was adopted in 2014, and all public sector organizations are required to maintain accounting and prepare financial statements in accordance with the Armenian Public Sector Accounting Standard (APSAS), which is a national accrual-based standard based on IPSASs. Simultaneously, other legal acts regulating accounting in the public sector were developed, including the Chart of Accounts (CoA). The structure of CoA enables to collect information not only for financial reporting purposes but also for budgetary ones.

Azerbaijan – Under the Law of the Republic of Azerbaijan on Accounting that came into force in January 2019, budgetary organizations and municipalities must prepare financial statements in accordance with IPSASs as adopted for application in the jurisdiction by the MoF. The extrabudgetary unit in Azerbaijan has been providing comprehensive data on the balance sheet since 2020. The social security funds began to compile balance sheet figures in 2022.

Georgia — Central government currently prepares budget execution reports in accordance with the cash basis of accounting. In 2007, the minister of finance decided to adopt IPSAS for central and subnational governments, starting with the cash-basis IPSAS, gradually adding disclosures about assets and liabilities in order to subsequently arrive at accrual accounting IPSAS. In terms of financial accounting reports, the MoF produces annual consolidated financial statements for central government and individual municipalities in line with accrual based IPSASs. Autonomous republics and municipalities are producing their annual consolidated financial statements in line with 24 accrual based IPSASs.

Kazakhstan – The Association of Chartered Certified Accountants (ACCA) and the MoF of Kazakhstan (MoF) have launched an important initiative to further support the implementation of IPSAS in the country. The ACCA will be offering ACCA's Certificate in the IPSAS (CertIPSAS) to government officials, and the initiative also includes a special focus on training the trainers who will teach the CertIPSAS to other government officials. In 2021, over 400 government officials in Kazakhstan have been trained and registered for the CertIPSAS Russian with plans for further expansion across all the public sector in Kazakhstan planned over the following years¹⁰.

Kyrgyzstan – Under Article 2-1 of the Law on Accounting, budget institutions are required to apply IPSAS. The MoF is responsible for defining accounting standards for the PS under the law; however, the due process for adoption of IPSASs remains to be established and in practice, national standards are applied on a partial accrual basis as reported in the International Federation of Accountants (IFAC), Chartered Institute of Public Finance and Accountancy (CIPFA) Index (2020).¹¹

Mongolia — Paragraph 26.1 of the Integrated Budget Law specifies that state entities prepare financial statements on the accrual basis of accounting. The Ministry of Finance, Mongolia and the

⁹ "Adoption" means 100 percent application of all IPSAS standards without amendment, and thus, no national standards are required. In contrast, "Adaptation" means that the government converts IPSAS into national standards which reflect selected parts of the IPSAS canon.

¹⁰ Euroactiv Press Release, <https://pr.euractiv.com/pr/acca-collaborates-ministry-finance-kazakhstan-support-ipsas-implementation-216232>

¹¹ Official site of International Federation of Accountants, <https://www.ifac.org/about-ifac/membership/profile/kyrgyz-republic>

Mongolian Institute of Certified Public Accountants provide public sector entities with the current IPSASB handbook of pronouncements for this purpose.

Tajikistan – The Public Financial Management Modernization Program prepared an implementation and training strategy for Tajikistan national public sector accounting standards based on IPSAS as part of an overall public sector reform strategy by the MoF. The authorities plan to introduce the new CoA based on IPSAS, starting 2025.

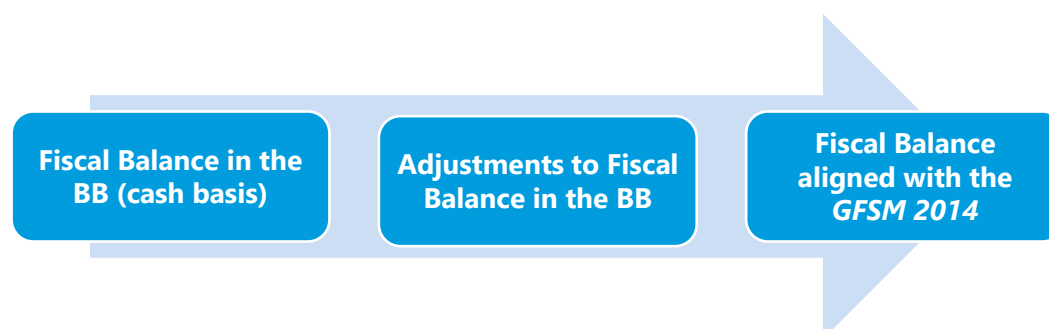
Turkmenistan — As part of its public administration reform project, the Ministry of Finance and Economy introduced in 2014 national accounting standards and new CoAs based on the International Financial Reporting Standards (IFRS).

Uzbekistan –The publication titled “The IPSAS Road Map in 2023”¹² assesses current public financial management and how to close accounting standard gaps. It underscores the need for dedicated project management and sets out potential reform program risks. It details the four-step implementation process and explains why IT systems should be integrated to introduce IPSAS and produce a 360-degree view of the government’s financial status and performance.

Compiling Internationally Comparable Fiscal Balance

Most of the CCAM countries already disseminate their fiscal balance in the *GFSM 2014* format along the national presentation. Due to the existing differences between the two, the compilers need to various adjustments and explore additional data sources to conduct such bridging from their national presentation.

FIGURE 4. Compiling Fiscal Balance for International Comparison



Three types of methodological adjustments should be made to move from the nationally based fiscal balance to the GFS-based net lending/borrowing. The adjustments should ensure that operations included in the national budget, but not belonging to the GFS revenue/expenditure are excluded. On the other hand, operations not reflected in the national budget but performed by government units ‘off-budget’ should be added to the GFS revenue/expenditure.

- Classification of revenues and expenditures. According to the GFS methodology based on ISS, inflows, and outflows from financing operations (transactions in financial assets and liabilities) are treated ‘below-the-line’ and thus do not have any impact on the fiscal balance, net lending (+) / net borrowing (-). Accordingly, such operations should be excluded from revenue and expenditure when compiling GFS.
- Completeness of the institutional coverage. All government operations and GG units should be reflected in the fiscal indicators and fiscal balance. In many countries the nationally based fiscal data often focus only on the budgetary organizations and some government funds but exclude other EBUs and omit operations performed through OBAs of budgetary organizations.
- Adjustments for interest, other accounts receivable and payable and for non-monetary

¹² <https://www.adb.org/publications/ipsas-implementation-road-map-uzbekistan>

transactions and other economic flows are necessary for presenting cash based presented fiscal indicators on an accrual basis.

TABLE 6. From nationally defined fiscal balance to net lending / net borrowing (GFSM 2014)

Nationally defined fiscal balance (BB)
Financial transactions included in the balance
+ Loans granted
- Repayments of loans
+ Acquisition of equities
- Sales of equities
+/- Other financial transactions included in the balance
Non-financial transactions not included in the working balance
Difference between interest paid (+) and accrued (-)
Other accounts receivable (+)
Other accounts payable (-)
Working balance (+/-) of entities not part of central government
Net lending (+) / Net borrowing (-) of other central government entities
Other adjustments (+/-)
Net lending (+)/ net borrowing (-) of central government (GFSM 2014)

Section 3. Towards Improving Fiscal Reporting

The CCAMTAC TA missions often suggest a gradual approach by introducing parallel budget reporting of national and *GFSM 2014* presentations, which should be accompanied by metadata explaining differences between the two. The differences can be illustrated in the form of a reconciliation table, specific for each country (e.g., Table 7).

To enhance the quality of fiscal reporting, the countries in the region need to strengthen intra and inter-institutional cooperation, including through signing a Memorandum of Understanding (MOU) between the MoF and the other two main compilers of macroeconomic statistics - National Statistical Agency (NSA) and Central Bank (CB).

At this stage, the meetings between the MoF, CB and NSA aiming at data reconciliation take place only during the CCAMTAC TA missions. The countries should take their responsibility to establish a well-functioning working group which meets and discusses the data and compilation issues regularly.

Legislative and Institutional Framework

The ongoing PFM reforms in most of the CCAM countries provide an opportunity to review and update the budgetary framework and strengthen the implementation of the international accounting and statistical standards, including in the measurement of fiscal deficit and government debt. The public finance laws of CCAM countries need to add elements to strengthen and modernize the existing legal framework related to the accounting and fiscal reporting.

Transition from Cash to Accrual

The transition from cash to accrual can be considered a long-term objective for CCAM region. Most countries transiting to accruals have approached transition in stages, starting with simple adjustments (such as accrued revenues and expenses, payables, and receivables) before moving on to the more difficult and advanced stages. Many countries are still in the midst of transition, and few advanced countries can claim to be applying the full requirements of the ISS and IPSAS. This gradualist approach is set out in the IMF guidance¹³.

Data sources

Integrated reporting of government units in treasury systems would be a good solution and would facilitate compilation of consolidated fiscal statistics. In current circumstances, it is very important to identify data sources and centralize their collection at the MoFs. Data on CG, LG and SSF need to be complemented by data of EBUs, OBUs, NCOs and NPIs belonging to GG and LG, which, in many countries, remain out of the scope. The countries should aim at developing a consolidated picture of GG operations and the balance sheet positions.

The compilers need to explore additional data sources to improve the quality of their statistics. The monetary survey of the CB is an important source of financial transactions (“below the line”). The banking system can provide a useful check on the budgetary data from the MoF. A regular exchange of information between MoF and NSA should take place to improve the consistency of the non-financial (“above-the-line”) transactions, in addition to regular information on consolidated annual

¹³ <https://www.imf.org/en/Publications/TNM/Issues/2016/12/31/Implementing-Accrual-Accounting-in-the-Public-Sector-44121>

financial statements and cash-based reports, the NSA and MoF would need to share information on i) adjustments to accrual; ii) arrears; iii) market / non-market character of SOEs.

Both the NSA and the CB collect data useful for entities sectorization and decisions on transaction classification. The delimitation of GG and PS is the first step in compilation of fiscal statistics. While it is recognized that the MoF has the lead responsibility for defining the extent of the GG, and the wider PS, it would be beneficial for the NSAs and the CBs (and other relevant institutions) in the CCAM region to have a greater role in this process.

Institutional Arrangements

The process of compiling fiscal statistics should be based on the collaboration of the relevant departments in the MoF involved in the fiscal statistics preparation. The best practice recommends formalizing such cooperation by a decree of the MoF and its supervision by a deputy minister of finance. An intra-agency working group (WG) should be established, consisting of representatives of respective MoF departments (Appendix 2). The responsibilities of the MoF departments and members of WG should be clearly defined in the decree, indicating the type of data and the frequency expected from the respective department to deliver on a regular basis for compilation of annual and high frequency data. The decree should also specify the format of supplied data and deadline for its submission, the required level of aggregation and attributes, and metadata. It should also indicate whether data should be bridged to *GFSM 2014*.

The WG needs to prepare a methodological document on the national practices of the fiscal statistics compilation aligned with ISS, describing data sources used, institutional arrangements, methods, procedures for compilation of fiscal deficit and debt statistics on a cash and accrual basis for the purposes of international comparison.¹⁴

It is essential that all macroeconomic statistics use the same sectoral and transactions definitions to ensure consistency across economic metrics (e.g., GDP, external current balance, government NL/NB). The MoF, NSA and CB have collective responsibility for the quality of macroeconomic statistics. To achieve synergy, it is recommended that MoF, the NSA and CB sign an MOU. Besides the regular exchange of data, the MOU should treat topics about confidentiality considerations, consolidation and reconciliation between stocks and flows, consistency, and methodology, dissemination, and publishing of various statistical outputs.

Conclusion

Most of the CCAM countries are strongly committed to improve transparency and accountability. Some of them have undergone the IMF FTE (Armenia, Georgia¹⁵, Kazakhstan, and Uzbekistan). The findings and recommendations of the FTE have been a boosting element for the countries' improvement of fiscal reporting. On the other hand, some countries, still fall behind and need more political support and better capacities. While full alignment with ISS may not be achieved in the short term, the reform process presents opportunities for implementation of ISS for measuring fiscal indicators, implementing more efficient work procedures, greater cross-cutting collaboration, improved transparency, and the possibility to become regionally and internationally comparable.

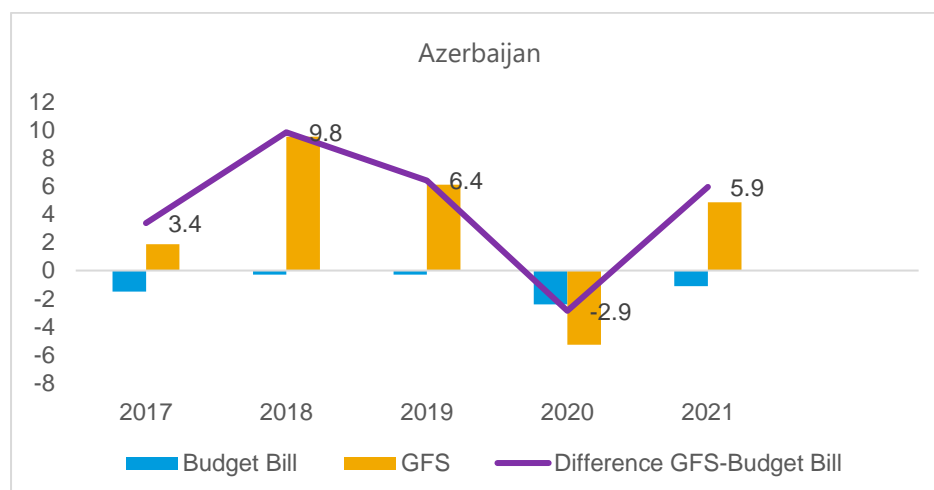
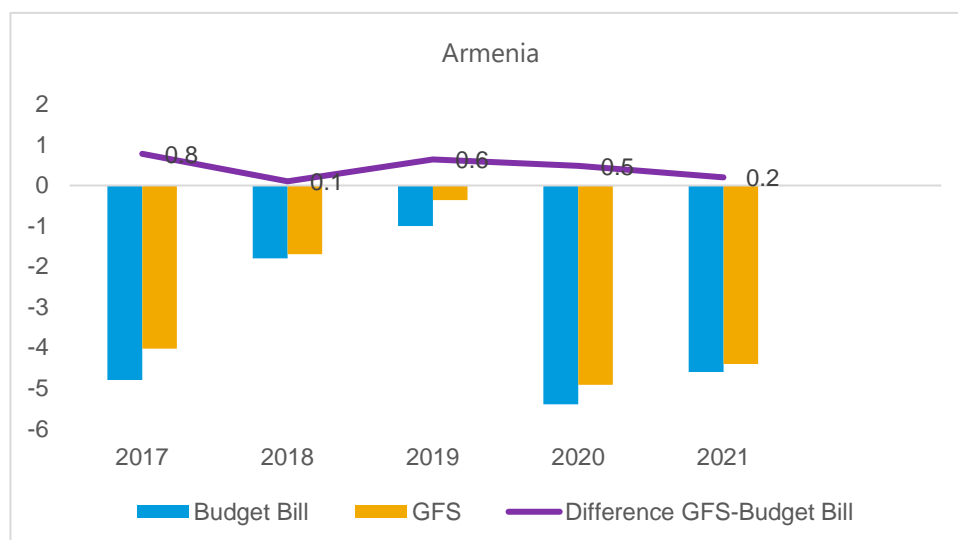
Parallel publishing of fiscal data aligned with ISS with the fiscal data compiled in national methodology would allow the national political authorities and the public to better understand the differences between the two presentations. Disseminating internationally comparable key fiscal indicators on the CCAM countries' national websites would promote economic growth by providing a more favorable investment environment. Improving the measurement of fiscal indicators in fiscal reporting under national methodology aligned with the ISS would support government accountability and effective fiscal management, including through cost-benefit analysis and risk analysis.

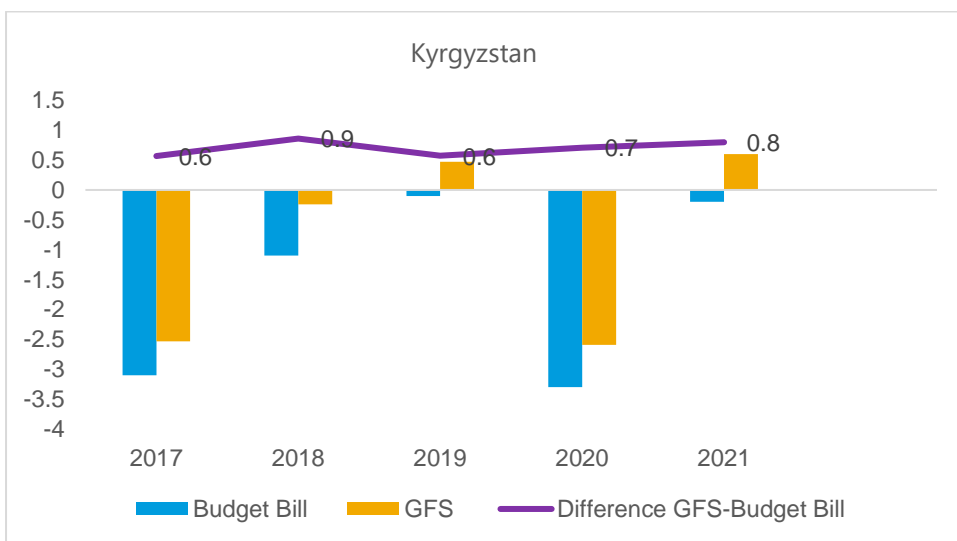
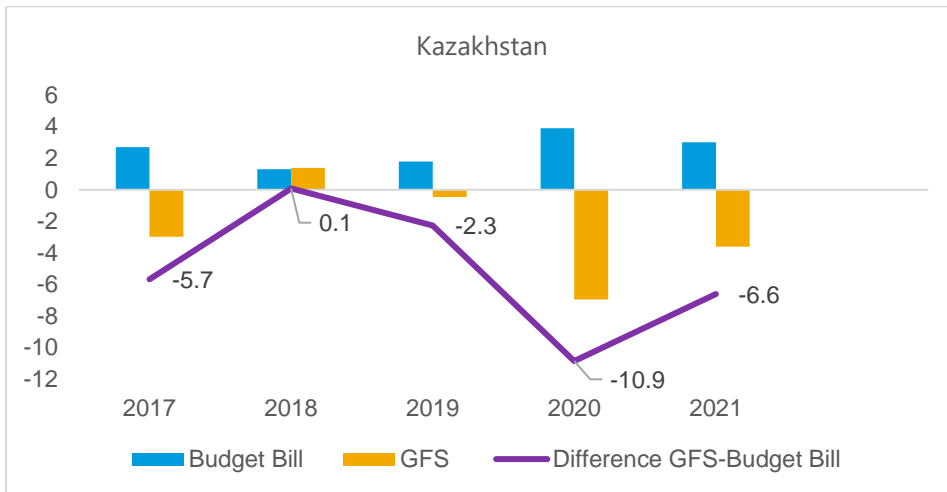
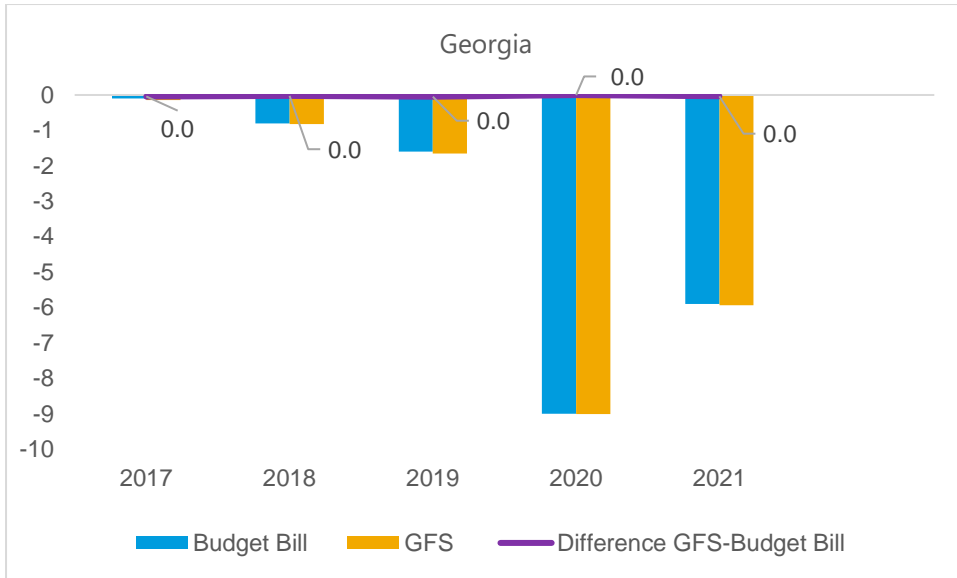
¹⁴ The documents of countries with advanced statistical systems can be used as a reference, <https://ec.europa.eu/eurostat/web/government-finance-statistics/excessive-deficit-procedure/edp-inventories>

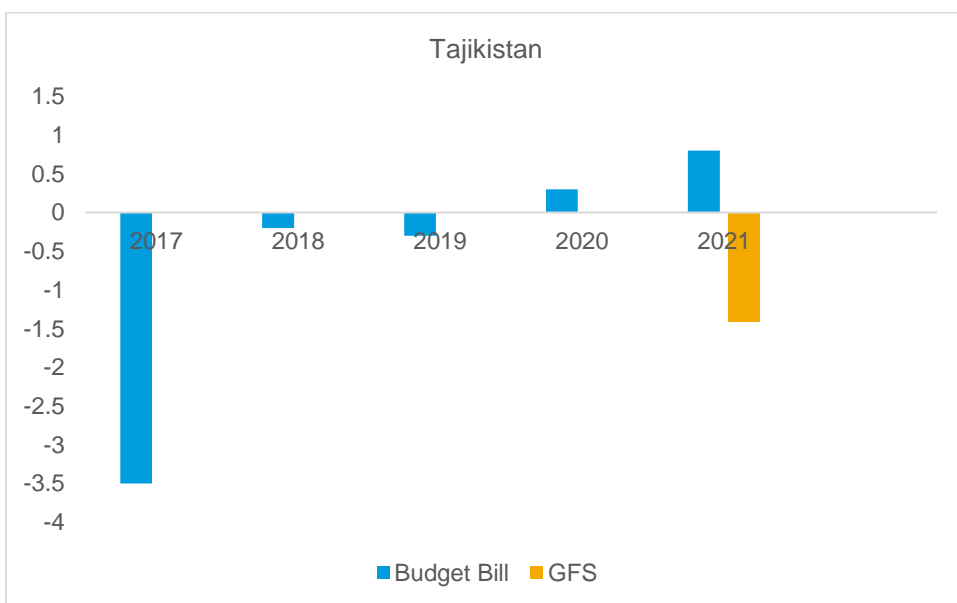
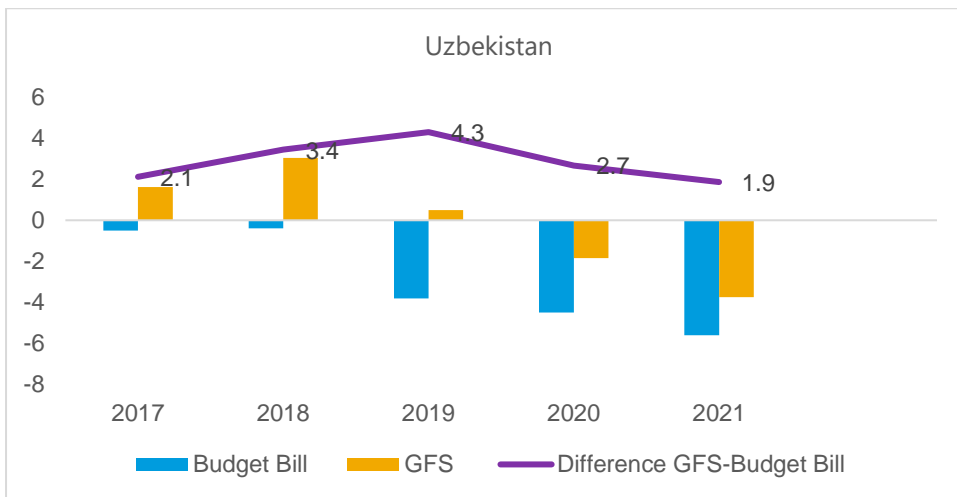
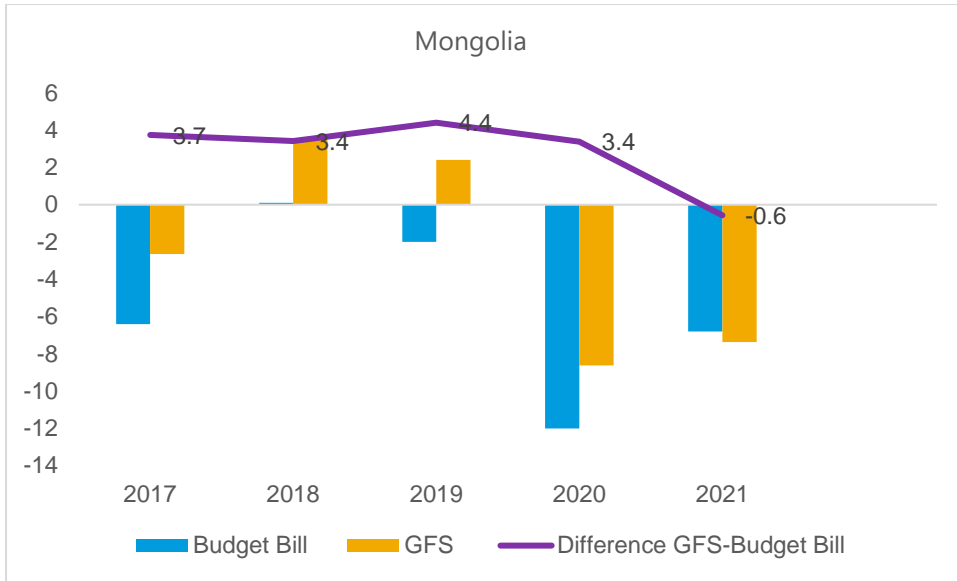
¹⁵ Georgia also undertook the IMF FTE update in 2023.

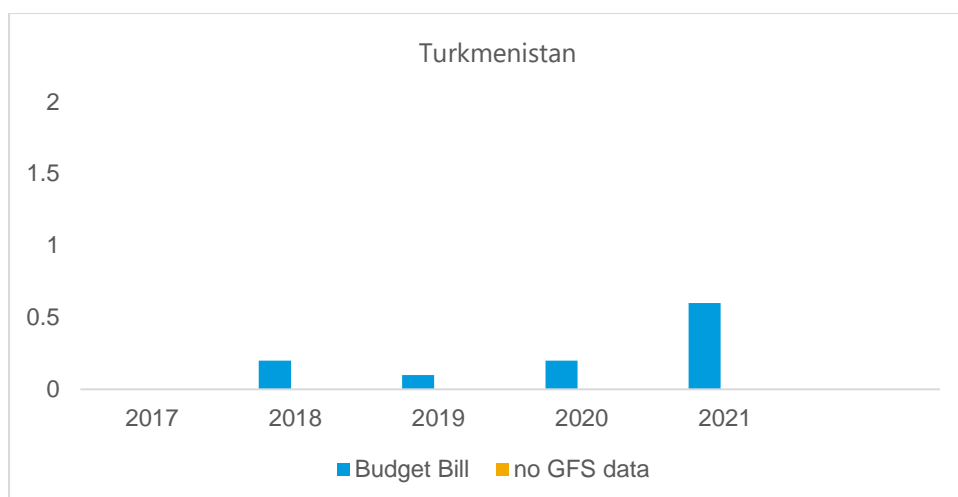
Appendices

APPENDIX 1. CCAM COUNTRIES' FISCAL BALANCE IN THE BB AND GFS FOR GG (AS PERCENT OF GDP)







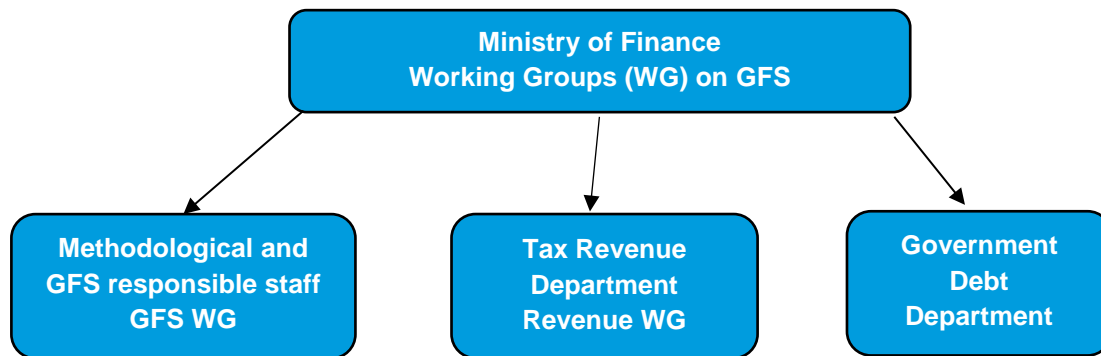


Note: Turkmenistan does not submit GFS to the IMF database. Tajikistan started submitting GFS with 2021 data.
Source: CCAM Ministries of Finance

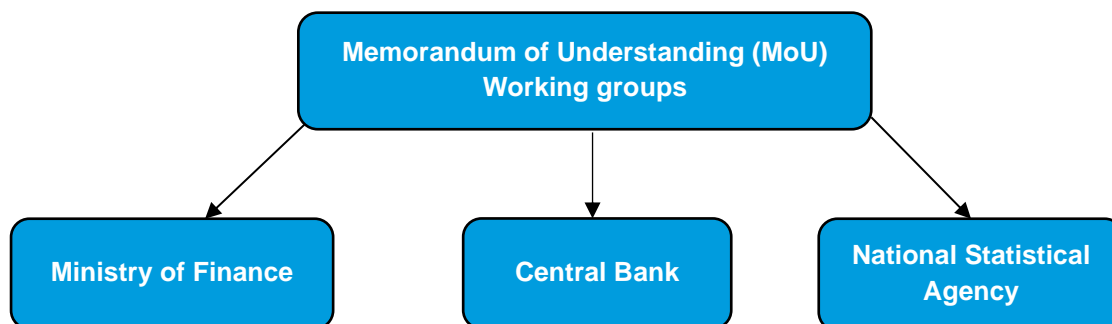
Overall balance of BCG according to the different methodologies and coverage							
Country		2017	2018	2019	2020	2021	2022
Armenia	BB	-4,8	-1,8	-1	-5,4	-4,6	-2,1
	GFS BCG	-4,1	-1,8	-0,7	-5,4	-4,6	
	GFS GG	-4	-1,7	-0,4	-4,9	-4,4	-2,1
Azerbaijan	BB	-1,5	-0,3	-0,3	-2,4	-1,1	-1
	GFS BCG	0,4	1,9	1,5	-0,6	0,9	
	GFS GG	1,9	9,5	6,1	-5,3	4,8	
Georgia	BB	-0,1	-0,8	-1,6	-9	-5,9	-2,2
	GFS BCG	-1	-2	-2,1	-8,6	-6,1	-2,9
	GFS GG	-0,1	-0,8	-1,6	-9	-5,9	-2,2
Kazakhstan	BB	2,7	1,3	1,8	3,9	3	2,1
	GFS BCG	-1,7	-0,7	-1,2	-2,5	-2,7	
	GFS GG	-3	1,4	-0,5	-7	-3,6	
Kyrgyz Republic	BB	-3,1	-1,1	-0,1	-3,3	-0,2	-1,1
	GFS BCG	-3,3	-1,1	-0,1	-3,3	-0,5	
	GFS GG	-2,5	-0,2	0,5	-2,6	0,6	0,6
Mongolia	BB	-6,4	0,1	-2	-12	-6,8	-2
	GFS BCG	-3,5	2,3	0,8	-7,5	-5,9	
	GFS GG	-2,7	3,5	2,4	-8,6	-7,4	
Tajikistan	BB	-3,5	-0,2	-0,3	0,3	0,8	1,1
	GFS BCG	n.a	n.a	n.a	n.a	-1,7	
	GFS GG	n.a	n.a	n.a	n.a	-1,4	-0,3
Turkmenistan	BB	0	0,2	0,1	0,2	0,6	1,5
	GFS BCG	n.a	n.a	n.a	n.a	n.a	
Uzbekistan	BB	-0,5	-0,4	-3,8	-4,5	-5,6	-4,0
	GFS BCG	0,2	0,7	-0,4	-1,7	-3,9	
	GFS GG	1,6	3	0,5	-1,8	-3,7	1,6

APPENDIX 2. EXAMPLE OF WORKING GROUPS

Intra-institutional cooperation



Inter-institutional cooperation



APPENDIX 3. LITERATURE

Literature

Deloitte, IPSAS in your pocket, 2013

IMF Technical assistance reports for CCAM countries

IMF Article IV reports for CCAM countries

IMF Technical Note 6 of 2016, “Implementing Accrual Accounting”, J. Cavanagh, S. Flynn, and D. Moret

IMF Regional Note, 2023, “Delimitation of the Public Sector in the CCAM countries”, Jablonska I., Karolova V.

IMF Government Finance Statistics Manual 2014,
<https://www.imf.org/external/Pubs/FT/GFS/Manual/2014/gfsfinal.pdf>

Manual on Government Deficit and Debt, <https://www.imf.org/en/Publications/Manuals-Guides/Issues/2016/12/31/Public-Sector-Debt-Statistics-Guide-for-Compilers-and-Users-Guide-for-Compilers-and-Users-24905>

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<https://www.imf.org/external/pubs/ft/extend/guide2.htm>

Official site of the Asian Development Bank, <https://www.adb.org/publications/ipsas-implementation-road-map-uzbekistan>

Official site of International Federation of Accountants, <https://www.ifac.org/>

Euroactiv Press Release, <https://pr.euractiv.com/pr/acca-collaborates-ministry-finance-kazakhstan-support-ipsas-implementation-216232>

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REGIONAL NOTES

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