



Manual for Fiscal Impact Assessment of Reforms



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1. INTRODUCTORY REMARKS

1.1 OBJECTIVE AND PURPOSE OF THE MANUAL

The objective of the Manual is to provide the users with methodologies and good practices of fiscal impact assessment that can be used for any reforms and policy measures planned by the government. The approach outlined in the manual can be used, for example, for fiscal impact assessment of national and sectoral policy documents, plans for the transposition of the EU Acquis, and implementation of laws, including those transposing EU directives.

The immediate purpose of the Manual is providing guidance for estimating the fiscal impact of reforms included in Reform Agenda (RA) documents, prepared by the beneficiaries of the EU's Reform and Growth Facilities (RGF) for the Western Balkans and Moldova. Estimating the fiscal impact of reforms included in the RA is required by the European Commission's Guidance for the preparation of the Economic Reform Programme (ERP). In this way, the manual and the support that will be provided to the users aim at improving the consistency, comparability and standardization of fiscal impact estimations across reforms and the RGF beneficiaries.

Estimating the costs of reform implementation and providing sufficient budgetary and other resources is key to timely implementation of reforms and receiving conditional financial disbursements from the RGF. The purpose of fiscal impact estimation is not to formalistically tick off an ERP requirement – it is an integral part of good policy and budgetary planning and helps avoid unexpected expenditures.



1.2 FORMAL REQUIREMENTS AND THE TASKS OF FISCAL IMPACT ASSESSMENT

REQUIREMENTS OF THE ERP GUIDANCE FOR THE ERP CHAPTER 5A (FOR THE BENEFICIARIES OF THE RGF)

“Links to and expected impact on the fiscal framework. This includes quantified impacts on government revenues (both directly through financial assistance under the RGF, and indirectly, for instance thanks to improvements to revenue administration implemented under the RA) and on expenditure (such as savings to be achieved by certain reforms or additional spending linked to priority investments under the RA). To facilitate understanding, quantitative information on revenue and spending impacts of reforms with significant fiscal implications should also be submitted in the form of a table that displays the expected revenue and spending impacts separately for each year of the ERP. It should be explained how the expected fiscal impact of reforms and investments was included in the fiscal framework of the ERP.”

Guidance for the Economic Reform Programmes 2026-2028 of candidate countries and potential candidates, European Commission, July 2025.

The table below deconstructs the cited paragraph of the ERP Guidance into individual elements and translates them into the tasks that need to be done to fulfill the requirements. By doing so, the table also introduces the terminology used in this manual.

ERP Guidance requirements	What needs to be done and estimated
Quantified impact on government expenditure (such as savings to be achieved by certain reforms or additional spending linked to priority investments under the RA).	<p>Additional costs of reform implementation This requirement relates to the additional costs for salaries, goods and services, subsidies, transfers and capital expenditures that will need to be covered from the government budget; it includes budget expenditures financed by loans and grants and expenditures of subnational governments. The costs that need to be estimated are related to implementation of RA steps including the reform steps that involve public investments. Information on resources available to cover the costs needs to be provided as well, to support the credibility of reform plans.</p> <p>Budgetary savings generated by the reform Some reforms, for example in the areas of public financial management, corporate governance, or digitalization, may reduce budgetary expenditures over the medium to long term.</p>
Quantified impacts on government revenues (both directly through financial assistance under the RGF, and indirectly, for instance thanks to improvements to revenue administration implemented under the RA).	<p>Expected revenues from the RGF This relates to the financial disbursements paid to the government budget upon verified implementation of reforms steps. “Quantified indirect impacts on government revenues” may include both direct and indirect revenue effects generated by reform implementation:</p> <ul style="list-style-type: none"> • Revenues generated by the reform Some reforms have the potential of creating additional revenues for the budget, for example introduction of carbon pricing, awarding of concession fees (licenses) for 5G networks, reduction of informal economy and increased efficiency of revenue collection. On the other end, some reforms, for example simplification of parafiscal charges or a tax reform may reduce budget revenues. • Second-round revenue impact of the reforms Reforms in a programme such as the RA are expected to increase economic growth and employment, which would in turn lead to higher budget revenues.



ERP Guidance requirements	What needs to be done and estimated
Quantitative information on revenue and spending impacts of reforms with significant fiscal implications should also be submitted in the form of a table that displays the expected revenue and spending impacts separately for each year of the ERP.	Summary table of fiscal impacts The ERP should include a table providing at least the sum of estimated fiscal impact, for each year of the ERP and broken down into the categories introduced above, i.e., additional costs, expenditure savings, revenues from the RGF, revenues generated by reforms and second-round revenues. Optionally, ERPs may also include a table detailing the fiscal impact of individual reforms or reform sectors.
It should be explained how the expected fiscal impact of reforms and investments was included in the fiscal framework of the ERP.	A narrative explanation of the estimated fiscal impacts The narrative of the ERP Chapter 5A should explain how the financing sources for covering the additional costs of reforms were planned and included in the ERP fiscal frameworks. Other fiscal impacts – on savings and revenues – should be planned conservatively to avoid over-optimistic budgets and included in the fiscal framework only on the basis of solid evidence and estimations.

1.3 THE STRUCTURE OF THE MANUAL

Following the table, the tasks required for the fiscal impact assessment are structured into five steps.

Estimating the costs of reform implementation and identification of available resources (Chapter 3)	This task is key for timely and complete implementation of reform steps. It should be done as precisely as possible, on the basis of activities required to implement the reform steps and summed up to the level of a reform, but limited to additional costs that will need to be covered by additional budgetary resources.
Estimating the impact on budgetary savings (Chapter 4)	Only some reforms have the potential to generate budgetary savings. Usually, the savings are realized only after the reform has been implemented, or during advanced stages of implementation, which is why they are not included among the financing sources for the reform itself.
Estimating the direct impact on budgetary revenues (Chapter 5)	Only some reforms have the potential to generate additional revenues for the budget. Usually the revenues, including a large part of the RGF disbursements, are realized only after the reform has been implemented and to the general budget, which is why they are not included among the financing sources for the reform itself.
Estimating the second-round impact on budgetary revenues (Chapter 5)	To estimate the second-round revenues, the economic impact of reforms needs to be estimated first. When reforms contribute to higher economic growth and employment, this will, over the medium term, increase the tax base and generate additional budgetary revenues.
Presenting the results of fiscal impact estimation in the ERP (Chapter 6)	The ERP needs to include a summary table of fiscal impact estimates and an explanation of how they were taken into account in the ERP's fiscal framework.

As indicated in the table, **the manual is structured** around these steps, with Chapter 2 providing an overview of the estimation process. The manual is accompanied by **a set of user-friendly tools** prepared in the Excel spreadsheet format. As explained in the annex, the spreadsheets provide tables that can be used in the process of estimating the fiscal impact. However, these tables are not prescribed by the ERP Guidance and do not need to be included in the ERP, except for the summary table of fiscal impacts. It is therefore at the discretion of the users to use these or similar tables in their fiscal impact estimation process.



2. THE PROCESS OF FISCAL IMPACT ASSESSMENT

2.1 SCREENING THE REFORMS FOR POTENTIAL FISCAL IMPACT

The task of estimating the fiscal impact of reforms is not as grandiose as it may seem from the table interpreting the ERP Guidance, as **not all reforms will create all of the potential impacts**:

- Reforms, or reform steps, which include only activities performed by existing employees of the implementing institutions, for example the alignment of the legislation with the EU Acquis, will likely not create any additional costs,
- Only a few reforms have the potential of creating budgetary savings or revenues, except for the direct revenues from the RGF which are assigned to each reform step,
- The second-round revenue implications should be estimated centrally by the Ministry of Finance (MoF), on the basis of the (macro)economic impact assessment of the reforms.

For this reason, we recommend starting the fiscal impact estimation process by screening the reforms for their potential fiscal impact. This will narrow the scope of the tasks, as not all impacts need to be estimated for all reforms. It will also help the implementing institutions and the MoF to better plan the work required for impact estimation.

For each reform from the RA, the screening should answer the following questions:

- Will the reform implementation create any additional costs that will need to be covered by additional budgetary allocations?
- Does the reform have the potential to generate savings to budget expenditures compared to the current level?
- Does the reform have the potential to generate additional revenues to the budget?

The answers to these questions should be provided by the implementing institutions and checked and verified by the MoF. The manual provides a simple Excel tool for the screening of reforms. Using the tool not only helps organise the information but also results in a clear work plan of what needs to be estimated and for which reforms.

On the basis of screening results, the work on fiscal impact assessment can be limited to those reforms that were identified as likely to create additional costs, savings or revenues.

2.2 ROLES AND RESPONSIBILITIES

The overall process of estimating the fiscal impact of reforms should be led by the MoF. Financial estimates are provided by line ministries and other institutions responsible for reform implementation, as they are most familiar with the details of reform plans. Organizational support to the MoF is provided by the ERP and RA coordinators. The explanation of fiscal impacts in ERP Chapter 5A should normally be prepared by the MoF.

Who performs the costing of reforms?	The ministry or institution responsible for the design and implementation of the reform, in cooperation between the policy and budgetary departments and with support from the MoF.
Who identifies available sources of financing?	The ministry or institution responsible for the design and implementation of the reform, in cooperation with the MoF and the bodies responsible for coordination of foreign assistance and IPA funds.
Who ensures that sufficient funds are allocated for the reform in the budget?	The MoF and the ministry or institution responsible for the design and implementation of the reform, as part of the annual budget preparation cycle.
Who estimates savings and revenues from reforms?	The MoF, with inputs provided by the ministry or institution responsible for the design and implementation of the reform.
Who prepares ERP Chapter 5?	The MoF.

2.3 STEP-BY-STEP FISCAL IMPACT ASSESSMENT

The fiscal impact assessment process starts with screening reforms to identify potential costs, savings, and revenue impact. Based on the screening results, detailed costing, budgeting, and revenue and savings estimation are carried out **only for reforms with material fiscal impacts**.

When applying the step-by-step process, users should follow the three guiding principles:

- Fiscal impact analysis should **focus exclusively on reforms and their specific steps as presented in the RA** (or, for other types of policy documents, the measures, reforms and activities as presented in these documents). Broader programmes or agendas may be discussed only after the reform-level analysis is completed.
- Use a **bottom-up approach** when impacts can be clearly identified and quantified at the level of activities or items (e.g. costs, some savings, direct revenues). Use a top-down approach when impacts are indirect, behavioral, or macroeconomic, or when detailed itemized analysis would not significantly improve accuracy.
- Use **official and approved sources only**, including adopted laws, by-laws, national and sectoral strategies, official statistics, and relevant CEF methodologies and tools. Using standardized **Excel templates** provided with the manual can greatly improve the gathering and presentation of estimations.

The table below outlines the indicative process for fiscal impact assessment of costs, savings, and revenues, while the applicable methods are presented in Chapters 3, 4, and 5.

THE PROCESS OF COST ESTIMATION AND BUDGETING		THE PROCESS OF SAVINGS AND REVENUES ESTIMATION
Leading role of line ministries; support required from MoF		Leading role of the MoF, inputs required from line ministries
Costing	Budgeting	
<p>Step 1: Definition of the costing period The costing period is aligned with the government medium-term budget planning period and the ERP, applied consistently across all reforms, taking into account implementation timelines.</p>	<p>Step 6: Identification of financing sources The responsible ministry or institution identifies available financing sources: national and subnational budgets, other public financial sources, EU funds, grants, project loans (see Chapter 3 and the WT2 in the Excel tool).</p>	<p>Step 1: Selection of reforms relevant for savings and revenues The MoF, in cooperation with line ministries or institutions, selects (screens) the reforms that may have a significant impact on budget revenues or savings. RGF disbursements are calculated for all reform steps.</p>
<p>Step 2: Identification of steps and activities with additional costs The responsible ministry or institution identifies steps and activities that generate additional costs in the costing period.</p>	<p>Step 7: Verification and validation of costing and budgeting The MoF verifies whether the estimated costs and financing sources are in line with applicable budget ceilings and the medium-term fiscal framework.</p>	<p>Step 2: Classification of revenue impacts Selected reforms are classified according to the type of impact:</p> <ul style="list-style-type: none"> • Revenues generated by reforms, • Second-round (indirect) revenue impact of reforms.
<p>Step 3: Selection of costing methods For each step, the appropriate costing estimation method is selected (see Chapter 3).</p>	<p>Step 8: Identification of the financing gap The responsible ministry or institution calculates the difference between estimated costs and secured financing sources (see Chapter 3 and the WT4 in the Excel tool).</p>	<p>Step 3: Selection of assessment methods For each reform, the appropriate savings or revenue estimation method is selected, in line with the characteristics of the reform (see Chapters 4 and 5).</p>
<p>Step 4: Estimation of additional costs by activity The responsible ministry or institution breaks down additional costs by activities (bottom-up costing) and estimates their value from inputs on standard and other relevant costs. Other methods may be applied when bottom-up is not feasible (see Chapter 3).</p>	<p>Step 9: Coverage of the financing gap Together with the MoF, the responsible ministry or institution addresses the financing gap through reallocations, savings, additional financing sources, or phased implementation of the reform.</p>	<p>Step 4: Identification and collection of inputs The MoF identifies required data and requests input from the responsible ministries and institutions, which provide the necessary information.</p>
<p>Step 5: Classification of additional costs Additional costs are grouped into standard categories: wages; goods and services; subsidies and transfers; investments (see Chapter 3 and the WT1 in the Excel tool).</p>	<p>Step 10: Integration into the budget and MTF Final budgeted amounts for reform financing are integrated into the MTF and the annual budget.</p>	<p>Step 5: Estimation of savings and revenues The MoF estimates the medium-term budgetary savings and revenue impact.</p>
<p>Output – Presentation of budgeted reforms (ERP Chapter 5) Once validated and integrated into the budget, the estimated costs constitute the official fiscal cost estimate of the reforms.</p>		<p>Output – Presentation of savings and revenues (ERP Chapter 5) Once integrated into the budget, they constitute the official estimate of reform-related savings and revenues.</p>

2.4 TIMING OF FISCAL IMPACT ASSESSMENT

Ideally, the process of estimating the fiscal impact of reforms and ensuring sufficient resources for their implementation should be **integrated into the regular preparation of the medium-term fiscal framework (MTFF) and the annual budget**. This ensures consistency between reform cost and budget estimates and the ERP fiscal framework, which is based on adopted budget planning documents.

Integrating fiscal impact estimation into the regular budget procedure has three important implications:

- **Work on fiscal impact estimation should start early in the year**, together with the preparation of the medium-term budget planning document, rather than only in the autumn when the ERP preparation typically begins.
- **Fiscal impact estimates should be forward-looking**, covering the next medium-term period (e.g. work carried out in 2026 should focus on impacts for the 2027–2029 ERP). At the same time, data for the current year (e.g. 2026) should be updated and used as the baseline, and estimates should be updated for each subsequent ERP cycle.
- **Budget circulars** should be used to collect fiscal impact estimates from implementing ministries and institutions, using the tables provided by this manual or similar standardized data-collection tools.

Fiscal impact analysis is updated every year for each new MTFF. While the fiscal impact of a given reform may extend over several years, the underlying circumstances, inputs, legislation, and baseline assumptions may change over time. For this reason, estimates of expenditures, savings, and revenues related to reforms must be reviewed and updated annually. In some cases, the results may remain unchanged compared to previous years, while in others they may differ slightly or significantly.



3. IMPACT OF REFORMS ON EXPENDITURES – BUDGETING REFORMS

The purpose of reform budgeting is to ensure that sufficient and realistically available financial resources are in place for their implementation. Budgeting reforms from RA is a requirement of the European Commission for drafting the ERP. However, beyond compliance, understanding how much funding the government needs to implement a specific reform or a package of reforms – and identifying sources to finance its implementation – is an essential part of strategic planning and sound public finances. In this sense, the European Commission’s guidance on integrating RA-related expenditures into the ERP provides a useful impulse for a practice that should become a regular element of the budget preparation process, the budget law, and the MTFF.

This chapter presents the key assumptions and methods for costing and budgeting reforms, which are explained in more detail in the [Guidance for Costing and Budgeting Reforms of the Reform Agenda](#). It therefore serves as a practical manual, outlining how to estimate reform expenditures and how to integrate them into the budget and the MTFF.

Key principles for costing and budgeting reforms:

Which costs are subject to reform costing and budgeting?	Costing covers additional direct costs arising from reform implementation. Direct costs are directly linked to the implementation of reform, while additional costs are costs incurred compared to a scenario in which the reform is not implemented.
What is the costing period?	The costing period includes the government medium-term budget planning period, taking into account implementation timelines, including any remaining costs from steps planned but not implemented in the previous period.
When is reform costing carried out?	Reform costing should begin at the start of the budget preparation cycle, in order to timely identify the additional costs of reform implementation, determine financing sources, and define—together with the MoF – the funds required to cover any financing gaps.
What is the baseline year?	The baseline year is the year preceding the year in which a reform, reform step, or reform measure is introduced. Additional costs are assessed relative to this baseline year.
Who is responsible for estimating reform costs?	The costing is the responsibility of the implementing ministry or institution, in cooperation between its finance unit and technical experts. The MoF supports the process by providing standard costs, while the ministry or institution should closely coordinate with the IPA, external assistance coordination body and the MoF Budget Department.



3.1 COSTING REFORMS

As a general rule, only **additional costs** arising from reform implementation and not already covered by the baseline budget should be included.

Each reform is planned through reform steps or reform measures over a medium-term period. For the purpose of reform costing, the identification of a manageable number¹ of **clearly defined, output-based activities, expressed in quantitative terms**, is essential. The Excel tool provides the working tables to support the identification and quantification of costs by reform activities.

For example, typical outputs of activities envisaged under reforms in the RA may include:

- Legislation and public policy documents prepared and adopted (e.g. new, amended, or simplified laws, regulations, guidelines, or education strategies);
- Public administration databases established or upgraded (e.g. cadaster systems or registries of social assistance beneficiaries);
- Information systems developed and put into operation (e.g. electronic public procurement systems, e-government service portals, education information systems);
- Training activities delivered (e.g. number of training sessions conducted, number of participants trained);
- Physical infrastructure constructed or upgraded (e.g. coverage by new broadband networks, length of newly built gas pipelines or electricity interconnectors, water treatment facilities).

COSTING METHODS

There are four basic methods to estimate the costs of an activity. The choice of method depends on the nature of the planned activity, the required precision of the cost estimates, and the availability of cost data.

1) Itemized costing (also known as bottom-up costing) requires the costing team to estimate the costs of each input needed for implementing the activity. It typically produces the most precise estimate but is also the most time-consuming. Itemized costing can be simplified by applying **standardized costs** to items that recur across reforms. Standard costs may include, for example:

- Salaries of public officials by grade or education level,
- Daily fees for external experts and consultants,
- Regulated costs (per diems, travel reimbursements),
- Typical costs of training events (catering, accommodation, travel, interpretation, venue rental),
- Costs of information campaigns (media advertising, communication services),
- Standard costs for institution building (office equipment, IT, utilities, rent per m²).

The MoF is best placed to define and provide standard costs, using budget accounting and public procurement data. Once established, standard costs should be used consistently for reform costing and can also support budget preparation and funding requests to donors.

2) Analogy costing uses the information on previously implemented, comparable activities to estimate the costs of the planned activity.

3) Parametric costing identifies one or two key cost drivers of the planned activity and uses them to estimate the costs. Parametric costing is particularly useful when a large number of similar activities need to be costed. The analogy and parametric costing methods are generally less time-consuming but require costing data on previously implemented, comparable activities and are less precise.

4) Market scoping uses information on prices offered by market providers of goods and services to estimate the costs of the planned activity. It can be used as a standalone method for outsourced activities—for example IT system developers, event organizers, consulting and communication companies, building contractors, and similar—or as a supporting method to other approaches.

EXAMPLE: COSTING THE ESTABLISHMENT OF A NEW INSTITUTION

Itemized costing: List required inputs (staff, equipment, premises, utilities), apply unit prices from accounting data or market checks, and sum total costs.

Analogy costing: Compare the planned institution with similar existing ones and adjust costs based on differences in size and scope.

Parametric costing: Estimate average annual cost per employee from comparable institutions and multiply by planned staff numbers.

Market scoping: Use market prices to estimate specific cost items (e.g. rent, equipment, IT), as a supporting method.

EXAMPLE: COSTING TRAINING EVENTS

Itemized costing: List all cost items (participants, venue, catering, travel, experts, interpretation), apply unit prices from past events or market checks, and sum total costs.

Analogy costing: Compare the planned training with similar past events and adjust costs based on differences in size, duration, location, and inputs.

Parametric costing: Use average cost per participant and day from previous trainings and multiply by planned participants and duration.

Market scoping: Request price offers from external providers for outsourced training events; not applicable when events are organized internally.

Combining methods: Cost one training event in detail, derive unit costs, and apply them to other similar training activities.

CLASSIFICATION OF COSTS BY ECONOMIC CATEGORY

Regardless of the costing method used, all reform costs should be recorded by year and by standard economic categories, in line with the budget classification, and on a cash basis.

Salaries	Gross salaries (including taxes and social contributions) of newly hired staff required for reform implementation, taking into account qualifications and grades. Salaries of already employed staff, as well as staff transferred between institutions, are covered by the baseline budget and should not be costed.
Goods and services	Costs of goods and services purchased from external providers (e.g. experts, IT systems, equipment, utilities, training, travel), including value added tax (VAT). Indirect and overhead costs should be included only when they are directly associated with the hiring of additional staff for reform implementation.
Subsidies and transfers	Subsidies and transfers provided to reform beneficiaries (e.g. households, enterprises, employment policy or social protection beneficiaries).
Capital expenditures	Investments necessary for reform implementation (e.g. equipment, infrastructure), including related maintenance costs (e.g. investments in schools under an education reform).

¹ The Excel Tool allows up to five activities for each step, with the option of adding additional activities in exceptional cases.

Important remarks:

- **Recurrent costs:** Include costs that repeat every year for each year of the costing period, and clearly indicate those that continue after implementation.
- **Exchange rate:** Prepare all cost estimates in national currency, converting foreign amounts using official MoF exchange rate projections.
- **Consistency with previous costing:** Use earlier cost estimates only if they remain realistic; otherwise, update them.

3.2 BUDGETING REFORMS

Budgeting is carried out after reform costs have been estimated and aims to determine which resources are already available, which can realistically be expected, and whether a financing gap exists.

General budgeting principles are:

- Only realistically available financing sources at the time of budgeting should be included.
- For donor grants and loans, only planned disbursements (not total commitments) should be recorded.
- Where relevant, entries should be checked and validated by the responsible coordination units (e.g. the MoF Budget Department, the IPA and foreign assistance coordination units).
- Double financing of the same reform activity is not permitted and must be strictly avoided (e.g. financing the same activity from IPA and RGF).

CLASSIFICATION OF FINANCING SOURCES

1. National financing sources:

Central government budget	For the first year of implementation, only funds included in the officially approved central government budget should be recorded. For subsequent years, only funds consistent with the valid MTFP should be included. As good practice, entries related to central budget financing should be verified by the MoF Budget Department.
Subnational government budgets	Financing from sub-national budgets (municipal, regional, city, provincial) should be included only if it is approved in the sub-national budget for the first year, or consistent with the valid medium-term plan for subsequent years. Verification by the sub-national budget unit within the MoF is recommended.
Other public financial sources	Reform costs may be financed by public agencies, funds, or publicly owned enterprises outside the central or subnational budgets (e.g. energy companies, development agencies, social insurance funds). Such financing may be included among the financing sources only if it is included in the officially approved financial plan of the institution providing the funds.

Recording of intra-budgetary transfers. When the central government provides earmarked transfers or grants to sub-national governments for reform implementation, the financing source should be recorded as central budget financing. Such transfers may be included as available financing if they are planned in central government budget documents, even if the corresponding sub-national budget has not yet been approved.

Private sector financing. Private sector companies may directly finance reform implementation, for example by investing in renewable energy infrastructure or energy efficiency projects, on the basis of incentives and the regulatory framework provided by the reform. When private sector financing is expected, it should be mentioned in the comments to the summary costing and budgeting table (WT4 in the Excel tool).

2. Grants and loans:

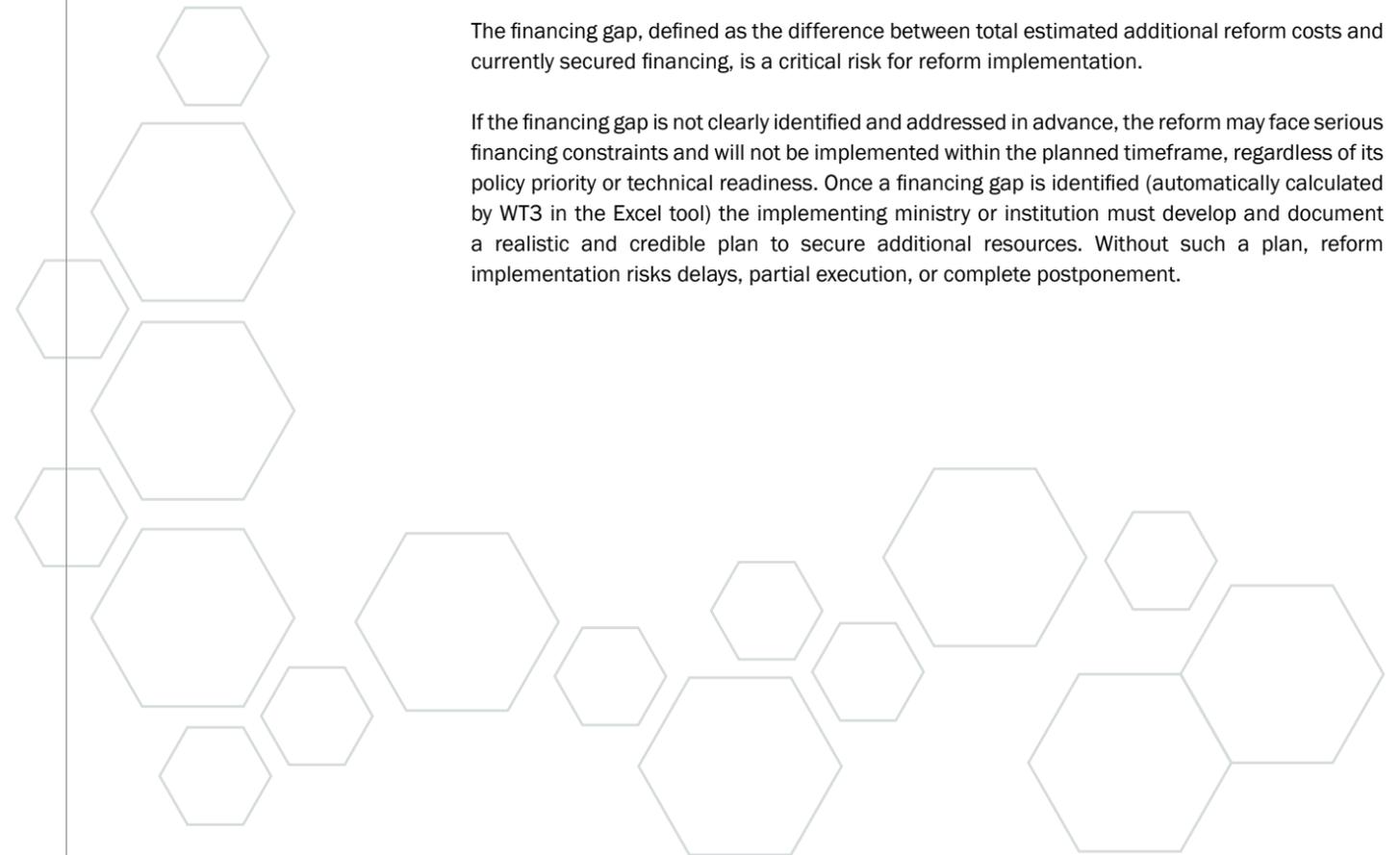
IPA funds	Only funds from existing IPA projects should be included. Exceptions may apply to projects that are in an advanced pipeline stage, or covered by an officially approved IPA planning document with a firm commitment. In such cases, planned funds should be distributed across years to reflect possible implementation delays. Verification by the IPA coordination unit is recommended.
Other grants	Only approved and committed grants should be included. Pipeline grants may be included only if close to approval and should be time-phased cautiously. Verification by the unit responsible for international financial assistance coordination is recommended.
Project loans	Only loans dedicated to reform implementation and already approved should be included as financing sources. Loans close to approval may be included exceptionally, with planned disbursements spread across two consecutive years to reflect possible delays. International loan entries should be verified by the unit coordinating international financial assistance.

Off-budget financing. Donors may finance some reform costs directly and outside the budget (e.g. experts, training, equipment, IT systems). If the amounts are known, they should be included among financing sources and reflected in cost estimates. If amounts are not known, the availability of off-budget financing should be mentioned in the comments to the summary costing and budgeting table (WT4 in the Excel tool).

THE FINANCING GAP

The financing gap, defined as the difference between total estimated additional reform costs and currently secured financing, is a critical risk for reform implementation.

If the financing gap is not clearly identified and addressed in advance, the reform may face serious financing constraints and will not be implemented within the planned timeframe, regardless of its policy priority or technical readiness. Once a financing gap is identified (automatically calculated by WT3 in the Excel tool) the implementing ministry or institution must develop and document a realistic and credible plan to secure additional resources. Without such a plan, reform implementation risks delays, partial execution, or complete postponement.



EXAMPLE: COSTING AND BUDGETING OF A REFORM STEP

Below is a concrete example based on the RA, a step covering the establishment of the National Career Centre and related activities. This example illustrates how to apply costing and budgeting method of itemized (bottom-up) costing, using hypothetical figures and a three-year budget framework (Year X, X+1, X+2). Year X refers to the year following the one in which the costing is made, to match with the budget planning period which always start with the next year. For example, if the costing is done during the year 2026, Year X stands for 2027.

1. Define the reform step and its activities. The first step is to clearly define the reform step and break it down into a manageable number of concrete, output-based activities. In this example, the reform step “Establishment of the National Career Centre” is broken down into four activities:

- Activity 1: Establishment of the Center
- Activity 2: Preparation of documentation
- Activity 3: Preparation of training programme and tools
- Activity 4: Delivery of training for advisors

2. Fill in the costing tables for activities – using WT1 in the Excel tool. For each activity, the costing team from the line ministry or institution identifies only the additional costs required for implementation (i.e. costs not covered by the baseline budget) and allocates them by year (X, X+1, X+2), and economic category: salaries, goods and services, subsidies and transfers and capital expenditures. Using the itemized costing method, the team lists the necessary inputs (e.g. new staff, training services, equipment, documentation support), applies unit costs (from standard costs, past experience, or market checks), multiplies quantities by unit prices and records the results under the appropriate category and year.

For example:

- Activity 1 includes salaries for newly hired staff, some goods and services, and capital expenditure for equipment in Year X, and only salaries in Years X+1 and X+2 (**recurrent cost**).
- Activities 2 and 3 include only goods and services in Years X and X+1.
- Activity 4 includes training delivery costs mainly in Year X+1 and a smaller follow-up in Year X+2.

The **total** for each row sums all categories for that activity and year.

Activity 1 Establishment of the Center					
Year	Salaries	Goods and service	Subsidies and transfer	Capital expenditures	Total
X	90,000	10,000	0	25,000	125,000
X+1	90,000	0	0	0	90,000
X+2	90,000	0	0	0	90,000

Activity 2 Preparation of documentation					
Year	Salaries	Goods and service	Subsidies and transfer	Capital expenditures	Total
X	0	15,000	0	0	15,000
X+1	0	5,000	0	0	5,000
X+2	0	0	0	0	0

Activity 3 Preparation of training programme and tools					
Year	Salaries	Goods and service	Subsidies and transfer	Capital expenditures	Total
X	0	15,000	0	0	15,000
X+1	0	10,000	0	0	10,000
X+2	0	0	0	0	0

Activity 4 Preparation of documentation					
Year	Salaries	Goods and service	Subsidies and transfer	Capital expenditures	Total
X	0	0	0	0	0
X+1	0	150,000	0	0	150,000
X+2	0	20,000	0	0	20,000

3. Sum up the costs of activities. After all activities are costed, the costs are aggregated by year and by economic category in the costing table for the step. The calculation is done automatically by the Excel tool, once the costs of activities are entered. This step also produces the total additional cost per year (Year X, X+1, X+2). These **totals represent the full additional fiscal cost of the reform step** over the medium-term period.

TOTAL COSTS OF STEP IMPLEMENTATION					
Year	Salaries	Goods and service	Subsidies and transfer	Capital expenditures	Total
X	90,000	40,000	0	25,000	155,000
X+1	90,000	165,000	0	0	255,000
X+2	90,000	20,000	0	0	110,000
Total	270,000	225,000	0	25,000	520,000

4. Fill in the table for sources of financing (WT2 in the Excel tool). Once total costs are known, the next step is to identify which financing sources are realistically available to cover them. For each year, the user enters in the table only secured or realistically expected amounts from: central budget, subnational budgets (if applicable), other national public financial sources, IPA funds, other grants and project loans. The RGF payments are shown for information only, as they will only be available after the step has been implemented and verified. Attention needs to be paid to avoiding any double financing of the same activity from international funds.

In this example:

- Year X is financed by a mix of central budget, IPA funds, and other grants,
- Year X+1 is partly financed, leaving a shortfall,
- Year X+2 relies only on the central budget.

The Total column sums all financing sources per year.

Step 1 National career center established and operational										
Year	Costs	Central budget	Local budgets	Other public finance	IPA funds	Other grants	Project loans	Total	Financing gap	Info: RGF disbursement
X	155,000	120,000	0	0	20,000	15,000	0	155,000	0	0
X+1	255,000	130,000	0	0	60,000	0	0	190,000	-65,000	0
X+2	110,000	90,000	0	0	0	0	0	90,000	-20,000	0
Total	25,000	340,000	0	0	80,000	15,000	0	435,000	-85,000	60,000

5. Establish the financing gap. When you enter the information on financing sources in WT2 in the Excel tool, the tool automatically calculates the financing gap:

Financing gap = Total financing sources – Total additional costs (for each year)

In the example:

- Year X shows full coverage of additional costs by available financing sources (gap = 0),
- Year X+1 and Year X+2 show remaining financial gaps of EUR 65,000 and EUR 20,000, respectively.

This immediately highlights where additional financing of steps are needed.

6. Interpret the results and address the financing gap. If a financing gap exists, the implementing ministry must acknowledge the gap and propose realistic measures to close it (e.g. budget reallocations, additional budget requests, donor support, or phasing of activities). Without addressing the financing gap, the reform step **cannot be fully implemented within the planned timeframe**, regardless of its policy importance.

4. EXPENDITURE SAVINGS GENERATED BY REFORMS

Some reforms, for example in the areas of public financial management, corporate governance, energy efficiency in the public sector, public administration efficiency, simplification of the business environment, may reduce budgetary expenditures over the medium to long term. When the reforms are also implemented at the sub-national level, savings may be generated for sub-national budgets as well. Sub-national savings are not included in the estimation examples presented here, but may be mentioned in the narrative part of the ERP's Chapter 5 where relevant.

Usually, the savings accrue only after the reform has been implemented, or in the advanced stages of implementation, which is why they are not included among the financing sources for the reform itself. Another reason is that reliance on inherently imperfect estimates of savings as source of financing could lead to over-optimistic planning and result in unexpected funding gaps.

Unlike costing and budgeting, discussed in the previous chapter, there is no unified methodology for estimating the budgetary saving generated by reforms. The approach needs to be tailored to the specifics of the reform and available information. This chapter presents examples of estimations for typical reforms for the RAs.

4.1 REFORMS INCREASING THE EFFICIENCY OF PUBLIC SPENDING

Examples of reforms from the RAs, aimed at increasing efficiency of public spending:

Public procurement reforms	Public procurement reforms are aimed at increasing transparency and efficiency of procurement. Increased efficiency means that, after reform implementation, the same amount of goods and services as before can be procured with less money.
Public investment management (PIM) reforms	PIM reforms are aimed at increasing transparency and efficiency of investment planning and execution, including financial controls and corruption safeguards. Increased efficiency means that, after reform implementation, the same quantity of investment in physical terms (e.g., kilometers of roads, railways and broadband network, number of public buildings such as schools or hospitals, etc.) can be constructed with less money.
Corporate governance reforms	Corporate governance reforms of state-owned enterprises (SOEs) are aimed at improving the integrity and independence of governing (supervisory and management) boards, containing corruption risks, and improving the business performance of the SOEs. For the SOEs subsidized from the budget, improved business performance may result in reduction of subsidies. It may also reduce the need for providing government guarantees on loans taken by the SOEs, thereby reducing the fiscal risks.



Savings generated by such reforms are expected to be permanent, i.e., the level of spending required to sustain the current level of procurement, investments and SOE operations will be lower every year after the reform, unless the changes are reversed or poorly implemented.

A general approach to estimating the savings from reforms can be formulated as:

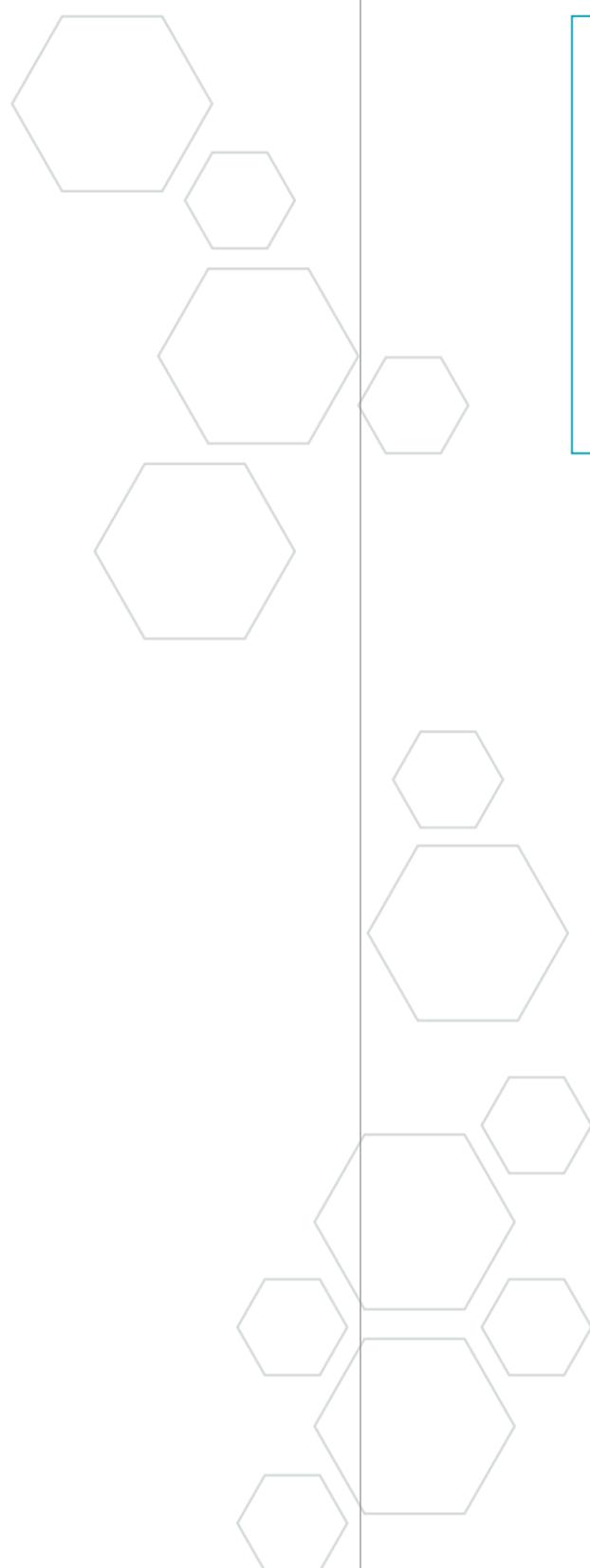
$$\begin{aligned} \text{Savings in Year X (EUR)} &= \\ &= \text{projected level of expenditures to which the reform applies in Year X (EUR)} * \\ &\quad * \text{efficiency gain expected from the reform in Year X (in \% of planned expenditures)} \end{aligned}$$

- Efficiency gain is the percentage of existing expenditures that is expected to be saved thanks to the reform. In most cases, the expected efficiency gain will need to be based on expert judgement of expert officials from the implementing institutions, familiar with the key steps of the reform. The efficiency gain would usually be assumed to increase over the years, as the reform implementation advances.
- The approach to projecting the level of expenditures impacted by the reform depends on the category of spending. Planned investment expenditures are usually available from the MTF (i.e., the so-called capital budget). The same may also include projections of expenditures for SOE subsidies and the total planned value of public procurement. When it does not, future expenditures may be estimated by multiplying their level in the baseline year (i.e., the most recent year for which the data is available) with the planned increase of total public expenditures from the baseline year to the year for which the savings are being estimated.
- Care should be taken that only the part of the expenditure that is subject to reform is taken into account. For example, if a procurement reform is focused on specific procurement sectors, only expenditures for these sectors should be taken into account. Similarly, if SOE governance reform is limited to specific sectors or SOEs, only subsidies to these should be taken into account.

EXAMPLE: ESTIMATING SAVINGS FROM A PUBLIC PROCUREMENT REFORM

The starting point for estimation is projecting the total value of public procurement for the medium-term period. The projection is based on data for the most recent fiscal year (the baseline), multiplied by the planned increase in total budget expenditures. The expected efficiency gain is then applied to the estimated value of procurement to calculate savings. Note that the efficiency gain is expected to increase over time, with advancement in reform implementation.

This is a highly simplified approach, using efficiency gains based on expert judgement as the only parameter of the estimation. It may still provide a good initial estimate for the purposes of the ERP. However, when the reform implementations advances and the first results begin to show in data, the initial estimates should be updated and made more accurate. Savings from procurement reforms may be estimated more precisely by drawing on the experience of procurements already implemented under the reformed system.



Year	Actual / Planned level of public procurement (EUR) (A)	Planned increase of total budget expenditures (%) (B)	Expected efficiency gain from the reform (%) (C)	Savings created by the reform (EUR) (D)
	Baseline = data; Other years = previous year * (B)	Projections of the MTF	Expert assumption	A * C
baseline (b)	1,400,000,000 EUR			
b+1	1,498,000,000 EUR	7%	5%	74,900,000 EUR
b+2	1,572,900,000 EUR	5%	10%	157,290,000 EUR
b+3	1,635,816,000 EUR	4%	20%	327,163,200 EUR

Note: In the examples, we use EUR as the currency. Users may decide to prepare estimations in their national currency, as part of budget preparation, and then apply the officially forecasted exchange rate to convert the results in EUR.

EXAMPLE: ESTIMATING SAVINGS FROM A PIM REFORM

The same approach as for the public procurement reform can also be used for the PIM reform – only that, in this example, we assume that the planned level of public investment in estimation years is directly available from the MTF.

Year	Actual / Planned level of public investment (A)	Expected efficiency gain from the reform (B)	Savings created by the reform (C)
	Projections of the MTF	Expert assumption	A * B
X	880,000,000 EUR	5%	44,000,000 EUR
X+1	968,000,000 EUR	15%	145,200,000 EUR
X+2	1,064,800,000 EUR	25%	266,200,000 EUR

Savings from PIM reforms may be estimated more precisely as the reform advances, by drawing on the experience of investments already implemented under the reformed system.

EXAMPLE: ESTIMATING SAVINGS FROM A CORPORATE GOVERNANCE REFORM

The calculation is structured similarly to the other two examples – the expected efficiency gain is applied to projected expenditures on SOE subsidies.

Year	Estimated level of subsidies to SOEs (A)	Expected efficiency gain from the reform (B)	Savings created by the reform (C)
	MTFF projections or expert assumption	Expert assumption	A * B
X	300,000,000 EUR	0%	0 EUR
X+1	350,000,000 EUR	2%	7,000,000 EUR
X+2	400,000,000 EUR	5%	20,000,000 EUR

However, although the calculation itself is simple, the estimation of savings from an SOE reform may be particularly uncertain for a number of reasons:

- Before full reform implementation, the efficiency gains, in terms of reduced budgetary subsidies, may be difficult to estimate with any reasonable precision even for the experts.
- The efficiency gains may depend on the sector in which the SOEs operate. They may be very high (up to 100%) for the SOEs that will be privatized and for the subsidies currently paid to thermo-power plants and coal mines that will be closed down as part of the energy transition. On the other end, in other sectors where subsidies support a public policy objective, for example subsidizing the railway transport of passengers, considerable subsidies may remain even after successful SOE restructuring.
- Finally, it may take a long time until the corporate governance reforms change the practices and culture of managing the SOEs, which means that the savings may only accrue after the medium-term planning period of the budget and the ERP.

For these reasons, we advise a conservative approach to estimating potential savings from corporate governance reforms, i.e., applying a low efficiency factor and only for the years after full reform implementation. Given the high uncertainty of such estimates, the MoF and the ERP coordinators may decide not to include any estimates in the ERP and rather provide only a narrative explanation of the potential fiscal impact. Such a narrative could include an explanation of the current situation regarding SOEs' performance, subsidies and fiscal risks implied by the inadequate corporate governance system. The potential reduction of subsidies to SOEs may be estimated more precisely when the newly appointed governing boards prepare restructuring plans with clear targets on improving the business results, or when the government adopts an SOE management strategy with specific targets for their performance.

4.2 ENERGY EFFICIENCY REFORMS IN THE PUBLIC SECTOR

Reforms aimed at improving the energy efficiency of public buildings create permanent savings by lowering expenditures for heating and electricity in renovated buildings. The approach to estimating the annual savings is based on current costs and their expected reduction after renovation.

$$\text{Savings} = \text{current annual cost of electricity per m}^2 * \text{planned energy renovations of public building in m}^2 * \text{expected reduction in electricity consumption after renovation} + \text{current annual cost of heating per m}^2 * \text{planned energy renovations of public building in m}^2 * \text{expected reduction in heating energy consumption after renovation}$$

- The second part of the formula (for heating expenditures) only applies if electricity is not used for heating.
- The current annual costs of heating and electricity per m² can be obtained from the accounting records of the institutions using these buildings. For simplicity, we propose that the costs are calculated for a small sample of buildings that are likely to undergo renovation, and the average of these costs is used in the calculation.

- The planned number of renovations in a year is often set as a target for reform steps in the RA (for example, renovating 3% of public buildings every year). The institution responsible for the reform implementation should be able to provide an estimate of the total footage (m²) of the buildings that will be renovated each year. A more precise source of information may be a plan for energy renovations, when such is available.
- The expected reduction of electricity and heating energy consumption in renovated buildings can be estimated from a number of sources. One potential source are the reports on already implemented renovations. Another source is the technical documentation of a sample of planned renovation projects. Expert opinion of technical experts experienced in energy renovation projects may be used as well.

EXAMPLE: ESTIMATING SAVINGS FROM ENERGY EFFICIENCY REFORM IN THE PUBLIC SECTOR

The calculations presented in the table follow the formula as presented above. A particular feature of this reform is that the savings are permanent –i.e., once a building is renovated, costs will be lower every year compared to the baseline level. Therefore, the total sum of savings in any particular year are the sum of savings from renovations performed in the current year and in the previous years.

The calculation does not take into account a potential increase in electricity and heating prices, to avoid overestimating the savings.

Year	Planned level of energy renovation (in m ²)	Average annual cost of electricity per m ²	Average annual cost of heating per m ²	Expected reduction of electricity cost after renovation	Expected reduction of heating cost after renovation	Savings created by the reform
	(A)	(B)	(C)	(D)	(E)	(F)
	Renovation plans of the implementing institution	Estimated from a sample of accounting records	Estimated from a sample of accounting records	Estimated from a sample of renovation projects or technical expert opinion	Estimated from a sample of renovation projects or technical expert opinion	A * B * D + A * C * E (for the current year + savings from previous years)
X	25,000	6.5 EUR	16.5 EUR	10%	30%	140,000 EUR
X+1	25,000	6.5 EUR	16.5 EUR	10%	30%	280,000 EUR
X+2	25,000	6.5 EUR	16.5 EUR	10%	30%	420,000 EUR

As the reform implementation advances, estimations should be updated using data on savings from actually implemented renovations.

4.3 PUBLIC ADMINISTRATION AND BUSINESS ENVIRONMENT REFORMS

Reforms aimed at improving the efficiency of public administration, including digitalization of services, and reforms aimed at reducing the administrative burden of regulations (i.e., the red tape), create savings not only for the private sector, but also for the public administration. Digital tools reduce the time needed by public officials to review and decide on applications. Simplified regulations save time that officials would otherwise use for unnecessary administrative procedures.

Estimating this kind of savings would require precise information on the time currently spent by public officials in many different institutions on many different administrative procedures, and applying the expected efficiency gains only to the set of procedures that will be subject to the reform. Such information is not readily available and collecting the necessary data would require significant efforts by many institutions. Such efforts may not be justified by the utility of providing a savings estimate, especially because the savings are likely to be smaller than from reforms affecting big expenditure categories such as procurement, investments or SOE subsidies.

For these reasons, the MoF and the ERP coordinators may decide not to include any estimates of savings for this type of reform in the ERP, and provide only a narrative explanation that these reforms will also contribute to increased efficiency of public spending.

5. IMPACT OF REFORMS ON BUDGET REVENUES

All reforms included in the RAs will generate disbursements from the RGF when the reform steps are implemented and verified. Additionally, some reforms may generate revenues to the budget as a direct impact of reform implementation, or indirectly through their impact on economic growth and employment. Usually, the revenues accrue only after the reform has been implemented, or in the advanced stages of implementation, which is why they are not included among the financing sources for the reform itself. Another reason is that reliance on inherently imperfect estimates of revenues as source of financing could lead to over-optimistic planning and result in unexpected funding gaps.

Similarly to budgetary savings, there is no unified methodology for estimating the revenues generated by reforms. The approach needs to be tailored to the specifics of the reform and available information. This chapter presents examples of estimations for typical reforms from the RA.

5.1 EXPECTED REVENUES FROM THE RGF

RAs include the value of RGF disbursement for each planned reform step. The deadlines for implementing the steps fall either in June or December of each implementation year. When a step is reported as implemented by the beneficiary, the implementation needs to be verified by the European Commission. Upon successful verification, the disbursements are paid within three to four months after the implementation deadline. However, for steps not verified as implemented, the disbursement is postponed and may still be processed later, provided that the step is implemented within a one-year grace period after the deadline.

Considering these disbursement rules, the calculation of revenues from the RGF may be done in the following way:

Expected revenues from the RGF in year X (EUR) =
 = total value of disbursements agreed for reform steps implemented in December of Year X-1 (EUR) +
 + total value of disbursements agreed for reform steps planned to be implemented in June of Year X +
 + total value of disbursements agreed for reform steps planned for June of Year X-1 and December of Year X-2, but not yet implemented (EUR).

For the purposes of the ERP, only the disbursements that will be paid to the government budget should be taken into account. The calculation includes disbursements for steps with delayed implementation – however, if any payment were already received on the basis of partial implementation, these should not be counted again here. Disbursement agreed for steps with implementation due more than a year ago, but not yet implemented, are not included in the calculation, because the grace period for implementation is limited to one year.

5.2 REVENUES GENERATED BY A REFORM

Some reforms have the potential of generating additional revenues for the budget, for example by reducing the informal economy, introducing or increasing the green taxation, increasing the efficiency of revenue collection, or auctioning licenses for the use of broadband (5G) networks. Some reforms, for example a simplification of parafiscal charges or a tax reform, may reduce budget revenues.

A general formula for estimating budget revenues is as follows:

$$\text{Revenues (EUR)} = \text{tax base (EUR)} * \text{tax rate (in \% or fixed amount in EUR)} * \text{efficiency of revenue collection (\%)}$$

Tax base: what the tax is applied to (e.g. consumption, wages, profits, quantity of fuel, number of licenses, quantity of pure alcohol). The term “tax” is used for simplicity; the formula applies equally to social contributions, user charges and other public duties.

Tax rate: what percentage or fixed amount is charged (e.g. 21% VAT, EUR 0.44 per liter excise duty). With progressive tax rates, an exact calculation requires estimating the tax base for each applicable tax rate. General tax allowances should also be taken into account.

Efficiency of revenue collection: what is the percentage (share) of the revenues actually collected, compared with revenues estimated on the basis of the tax base and the applicable tax rate (e.g. 80%, 95%).

The change in revenues after reform implementation may be estimated in the following way:

$$\text{Change in revenues (EUR)} = \text{tax base after reform (EUR)} * \text{tax rate after reform (in \% or fixed amount in EUR)} - \text{efficiency of revenue collection after reform (percentage points)} - \text{current revenues from the same tax (EUR)}$$

- The reforms may impact the tax base (for example, by reducing informal employment or by introducing carbon pricing), the tax rate (for example, by increasing the level of green taxation and duties), and the efficiency of revenue collection (for example, by increasing the efficiency of labor inspections or by improving the practices and tools of the tax authority).
- For estimating additional revenues from a reform, it is usually sufficient to know the current level of revenues, which can be obtained from the tax authority, and how the reform plans will affect the tax base, the tax rates or the collection efficiency. An exact calculation of revenues according to the formula, taking into account the structure of tax rates and other specifics, is usually not needed.

The following examples show how the approach can be used for some typical reforms from the RA.

REFORMS WITH IMPACT ON THE TAX BASE

REDUCTION OF INFORMAL ECONOMY

This is a common reform in most RAs. When reform targets are expressed in terms of reduction of informal employment, or in terms of reduction of the share of informal economy, these targets can be used for estimating additional revenues generated by the reform.

Examples of using both types of targets are presented below. The choice between the two methods obviously depends on how the targets of the reform are set. However, when both targets are provided, only one of the two methods should be used – using both, even if they are linked to different reforms included in the RA, may result in double counting of additional revenues.

EXAMPLE: ESTIMATING REVENUES FROM INFORMAL ECONOMY REDUCTION, USING THE TARGET ON REDUCTION OF INFORMAL EMPLOYMENT

The starting point for the estimation is the reform target for reducing the share of informal employment. The calculation proceeds with the following steps:

- From the baseline share of informal employment, usually available from the labor force survey data published by the statistical office, and the target value, which is usually set for the final year of reform implementation, annual values of informal employment share are assumed for the years between the baseline and the target (column B in the calculation table).
- From the projected total number of employed, usually available from the official macroeconomic forecast, and the targeted share of informally employed, the number of informally employed is calculated for every year. The calculation shows how the number of informally employed will decline over the years of reform implementation (column C in the calculation table).
- On the assumption that previously informally employed persons move to a full-time formal employment and are paid a minimum wage, additional budget revenues from the increased number of formally employed is calculated, using the statutory social contribution rates and an estimated effective income tax rate on the minimum wage. The minimum wage is used to avoid an over-optimistic revenue estimation (columns D to I in the calculation table).
- On the assumption that the newly formally employed will remain in employment, the annual revenues are the sum of revenues from additional employment in the current and in the previous years (column I in the calculation table). If the users find this assumption over-optimistic, they may use their expert judgement to apply a lower assumption, for example only 80% of the reduced number of informally employed moving into formal employment and remaining employed for only a year.

Calculation of the reduction in the number of informally employed persons			
Year	Total number of employees (A)	Share of informal employment (B)	Reduction in the number of informally employed (C)
	Baseline = data; Other years = official projections	Baseline = data; X+3 = reform target; B1 and B2 = assumed progress to target	(C*D) - ((C-1) * (D-1))
Baseline	1,400,000	12.0%	
X	1,428,000	11.5%	-3,780
X+1	1,456,560	10.9%	-5,455
X+2	1,485,691	10.0%	-10,196

Calculation of additional revenues						
Year	Minimum wage	Projected wage growth	Additional tax base	Effective income tax rate on minimum wage	Social contribution rate on minimum wage (employees + employers)	Additional revenues created by the reform
	(D)	(E)	(F)	(G)	(H)	(I)
	Baseline = data; Other years = baseline * E	Official projections	(-C) * (D*12 months)	Data / estimate from the tax authority	Legislation / information from tax authority)	F * (G + H) (for the current year + revenues from previous years)
Baseline	480.0 EUR					
X	496.8 EUR	3.5%	22,534,848 EUR	10%	20%	450,697 EUR
X+1	514.2 EUR	3.5%	33,658,500 EUR	10%	20%	1,123,867 EUR
X+2	532.2 EUR	3.5%	65,113,337 EUR	10%	20%	2,426,134 EUR

Some previously informally employed persons may find formal employment in the public sector or in public works. This will generate additional expenditures for the budget – if such employment is part of the reform, it should be accounted for in the estimation of costs.

EXAMPLE: ESTIMATING REVENUES FROM INFORMAL ECONOMY REDUCTION, USING THE TARGET ON REDUCTION OF THE SHARE OF INFORMAL ECONOMY IN THE GDP

The starting point for the estimation is the reform's target for reducing the share of informal economy in the GDP. The calculation proceeds with the following steps:

- From the baseline share of informal economy and the target value, which is usually set for the final year of reform implementation, annual shares of informal economy are assumed for the period between baseline and the target year (column B in the calculation table).
- From the projected value of the GDP, available from the official macroeconomic forecast, and the targeted share of informal economy, the annual reduction of the informal economy is calculated (column C in the calculation table).
- To estimate the revenues from the new tax base created by reducing the informal economy, the current share of tax revenues to GDP is applied to the value of the reduction of the informal economy (columns D and E in the calculation table). For the share of tax revenues to GDP, the example uses the share in the baseline year, but one can also use the average over a period of several years, or the share implied by the official GDP and revenue forecasts. Tax revenues include revenues from taxes, social contributions and other obligatory duties. Non-tax revenues, such as revenues from government's assets, receipts from sale of goods and services, fines, fees, charges, etc. are not included.
- On the assumption that the reduction of informal economy is permanent, the annual revenues are the sum of revenues from informal economy reduction in the current and in the previous years (column E in the calculation table).

Year	GDP	Share of informal economy in GDP	Reduction in the value of informal economy	Share of tax revenues to GDP	Additional revenues created by the reform
	(A)	(B)	(C)	(D)	(E)
	Baseline = data; Other years = official projections	Baseline = data; X+2 = target; X and X+1 = assumed progress to target	(A*B) - ((A-1) * (B-1))	Baseline value	(-C) * D (for the current year + revenues from previous years)
Baseline	20,000,000,000 EUR	23.0%		30%	
X	20,900,000,000 EUR	22.0%	-2,000,000 EUR	30%	600,000 EUR
X+1	21,840,500,000 EUR	21.0%	-11,495,000 EUR	30%	4,048,500 EUR
X+2	22,823,322,500 EUR	20.0%	-21,840,500 EUR	30%	10,600,650 EUR

Note that this kind of estimation may result in zero additional revenues. This occurs when the projected growth of nominal GDP is so high that even a lower share of informal economy still results in its value increasing over time.

INTRODUCTION OF CARBON PRICING

This is another reform commonly included in the RAs that increases the tax base. Carbon pricing may be introduced as a tax on industrial CO₂ emissions, or as an obligation to buy the corresponding level of emission permits through the emission trading system.

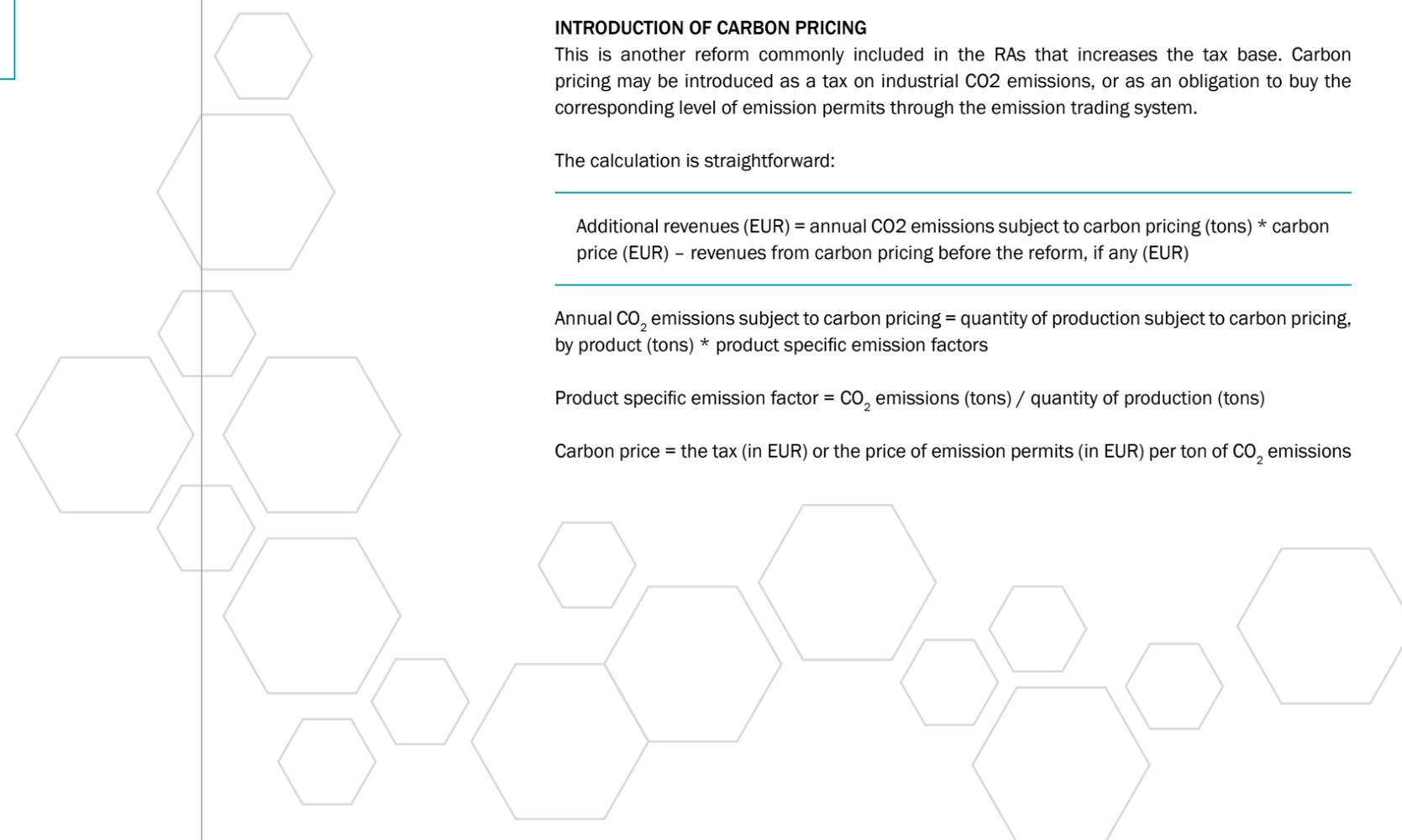
The calculation is straightforward:

$$\text{Additional revenues (EUR)} = \text{annual CO}_2 \text{ emissions subject to carbon pricing (tons)} * \text{carbon price (EUR)} - \text{revenues from carbon pricing before the reform, if any (EUR)}$$

$$\text{Annual CO}_2 \text{ emissions subject to carbon pricing} = \text{quantity of production subject to carbon pricing, by product (tons)} * \text{product specific emission factors}$$

$$\text{Product specific emission factor} = \text{CO}_2 \text{ emissions (tons)} / \text{quantity of production (tons)}$$

$$\text{Carbon price} = \text{the tax (in EUR) or the price of emission permits (in EUR) per ton of CO}_2 \text{ emissions}$$



EXAMPLE: ESTIMATING REVENUES FROM CARBON PRICING

The starting point for the estimation is the estimation of the current level of CO₂ emissions that will be subject to carbon pricing.

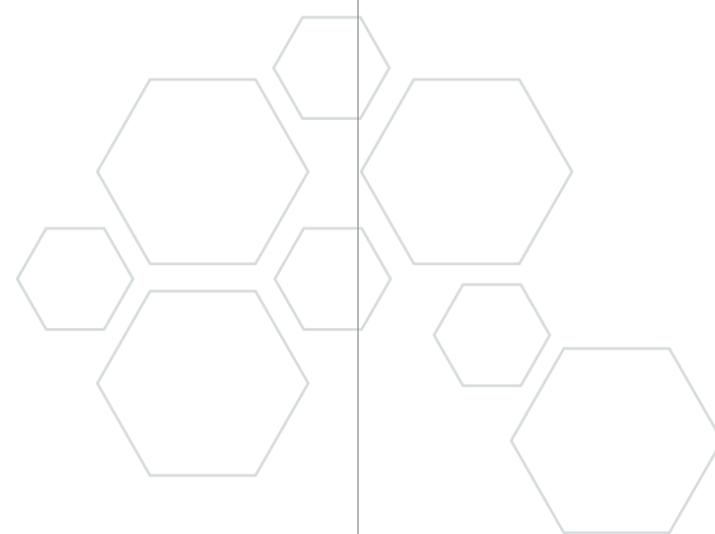
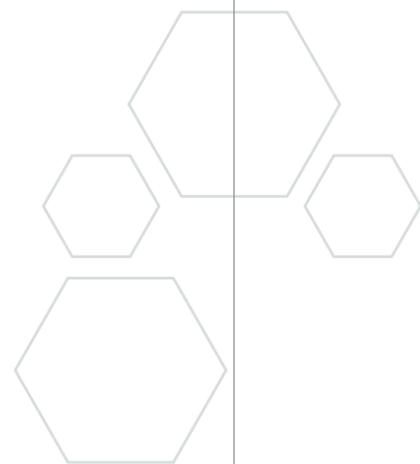
- In the example, we assume that the tax will apply to sectors which are subject to the EU's Carbon Border Adjustment Mechanism (CBAM), i.e., production of aluminum, cement, fertilizers, hydrogen, iron and steel, and electricity produced by coal.
- The quantity of production in these sectors may be available from the industrial statistics produced by the statistical office. In the example, we use illustrative figures not related to any particular country (column B in the table below).
- For an initial estimation, the default values of emission factors determined by the European Commission as part of the CBAM mechanism may be used. The default values are determined separately for each country and for each product of the six affected sectors.² In the example, we use typical values for one of the RGF beneficiary countries (column C in the table below).
- Once a reporting obligation is mandated for domestic producers and the Monitoring, Reporting, Verification and Accreditation (MRVA) mechanism is introduced as part of the reform, actual national data should be used to update the estimate.

Product	Annual production (tons / GWh)	Emission factor (tons of CO ₂ per ton / GWh of production)	Total emissions (tons of CO ₂)
(A)	(B)	(C)	B * C
	Illustrative numbers	Examples of default values	Baseline value
Aluminium (tons)	20,000	2.505	50,100
Cement (tons)	50,000	1.380	69,000
Fertilizers (tons)	500,000	1.507	753,500
Hydrogen (tons)	50,000	10.820	541,000
Iron and steel (tons)	4,000,000	2.482	9,928,000
Electricity from coal (GWh)	35,000	1.041	36,435
Total			11,327,935

The next step is estimating the revenues from the carbon tax or carbon permits. This basically requires multiplying the quantity of emissions with the carbon price, with some important notes to be considered:

- When the carbon price is introduced in the form of a carbon tax, the tax rate per ton of CO₂ emissions as planned by the responsible ministry should be used. It is expected that the tax rate will gradually increase with time. When, instead of taxation, a national emission trading system is introduced, the price of emission allowance will gradually converge to the EU level, depending on the speed of integration with the EU-wide trading system. At the same time, the price of carbon permits in the EU emissions market is expected to increase in the coming years.³

2 Annexes to the Commission Implementing Regulation laying down rules for the application of Regulation (EU) 2023/956 of the European Parliament and the Council as regards the establishment of default values, C(2025) 8552 final, 16.12.2025, available at: https://taxation-customs.ec.europa.eu/carbon-border-adjustment-mechanism/cbam-legislation-and-guidance_en
 3 One of the sources for current and historical carbon permit prices in the EU market is: <https://tradingeconomics.com/commodity/carbon>



- In the example, we assume that a carbon tax is introduced and that it will gradually increase over time (column C in the table below).
- Carbon pricing is intended to stimulate production restructuring and reducing the level of emissions and thereby the tax base. However, such adjustment takes time. In the example, we assumed very low levels of emissions reduction as the tax rate increases (column B in the table below).
- In the example, we also assume that a carbon tax of 10 EUR per ton of CO₂ emissions was already in place before the introduction of the reform. Additional revenues are thus calculated as the difference between total revenues in a year and the baseline level of revenues (column D in the table below).
- Note that the calculation formula does not include tax collection efficiency, as it would be difficult to estimate without experience in collection of carbon taxes. However, once the system is put in place, the estimates may be taken as the upper bound and compared with the actual revenues.

Year	CO ₂ emissions (tons)	Expected reduction in emissions	Expected price per ton of CO ₂ emissions	Additional revenues created by the reform
	(A)	(B)	(C)	(E)
	Baseline = estimation Other years = previous year* (100% - B)	Expert assumption	Baseline = current price; other years = reform plan	A * C - C baseline
Baseline	11,327,935		10 EUR	113,279,350 EUR
X	11,327,935	0.0%	15 EUR	56,639,675 EUR
X+1	11,101,376	2.0%	25 EUR	164,255,058 EUR
X+2	10,546,307	5.0%	40 EUR	308,572,949 EUR

Additional revenues from carbon pricing are expected to be permanent – but their level may change and fluctuate due to two factors working in opposite directions. On one hand, the price of carbon permits is expected to continue increasing. On the other hand, carbon pricing is intended to stimulate production restructuring and reducing the level of emissions and thereby the tax base.

Detailed scenarios for the introduction of carbon prices are not included in the RAs. For this reason, only very preliminary estimation results may be possible for the ERP 2027-2029, but can be updated later, as detailed plans and national emissions data become available. For the time being, the MoF and the ERP coordinators may decide to provide only a narrative explanation of the revenue impact of this type of reform.

However, when no national carbon pricing system is in force, exports from RGF beneficiaries to the EU will be subject to an import tax corresponding to CO₂ emissions embedded in the exported goods. A similar calculation as explained above may be used to estimate the amount of the tax that exporters will pay on their exports. The important difference is that the carbon price paid on exports to the EU does not create revenues for the exporting country's budget.⁴

4 The Fiscal Council of Serbia recently published a study estimating the impact of carbon pricing on the national economy and considering the policy option of introducing a national carbon tax. The study is only available in Serbian but common online tools can be used for translation: <https://www.fiskalniasavet.rs/latinica/analize-stavovi-predlozi.php#a251016>

A similar approach as explained for the case of carbon pricing can be used for estimating revenues from other reforms that increase taxes based on the quantity of production or sales, for example harmonizing the levels of excise duties on tobacco and alcohol products, environmental taxes based on quantity of packaging, waste, energy consumption and similar.

REFORMS WITH IMPACT ON THE TAX RATE

As part of business environment reforms, RAs may include a reduction in the number of licenses and permits required from businesses and physical persons, or a reduction of the licenses and permits fees. Such measures obviously result in at least temporary reduction of budget revenues, while, due to a simplified business environment, an increase in business activity and thus the widening of the tax base may be expected in the mid-term. While the mid-term impact is a typical second-round effect, discussed in the next section, estimating the loss of revenues should be straightforward, using data on revenues collected in the most recent (baseline) year for individual licenses and permits.

- For licenses and permits that will be eliminated, the revenues will go down to zero.
- For licenses and permits that will remain, but with reduced fees, the reduction of revenues can be estimated by applying the percent of fee reduction to the revenue collected by the same fee in the baseline year.

Reforms of the tax system are typically not included in RAs, but may be included in the fiscal framework of the ERP. Their expected revenue impact should therefore be explained within the ERP’s chapter on the fiscal framework and not in Chapter 5A, which is dedicated to the fiscal impact of the RA. The national tax authorities and revenue departments of the MoF are skilled enough to provide rough estimates of such impacts.

When including the expected impact of tax reforms in the official revenue projections used for budgetary planning and for the ERP’s fiscal framework, a conservative approach is advised to avoid over-optimistic budgetary planning.

- When estimating the impact of tax increases, the revenue estimation should not apply the higher tax rates to the full tax base, but take into account the collection efficiency. In practice, this means that effective tax rates should be used, i.e. the taxes actually collected compared to the tax base, as they are typically lower from the full statutory rates. An allowance should also be made for the taxpayers’ adjustment to the new system – implying that the increase of the effective rates may turn out to be lower than the increase of the statutory rates.
- When estimating the impact of tax decreases, the reduction of revenues may be lower than calculated by applying the reduced tax rates to the baseline tax bases. Reduction of tax rates may namely lead to an expansion of the tax base – for example, if a tax or social contribution allowance is introduced for young employees, one could expect the number of young employees to increase, thereby increasing the tax base. We recommend that such second-round impact is included in the revenue estimations only after introduction of the reform and on the basis of solid evidence for the actual tax base expansion.

REFORMS WITH IMPACT ON THE REVENUE COLLECTION EFFICIENCY

Reforms in the RAs include a number of measures, or steps, intended to improve revenue collection. They may include, for example, an increased number of labor and tax inspections conducted in a year, introduction of inspections and audits based on risk assessment, digitalization of taxpayer’s reporting and using data analysis to identify potential under-reporting, automatic access to data from administrative registries, improved technical tools and skills of custom controls, and similar.

The expected increase in collection efficiency will usually need to be assumed by well-informed expert judgement of the tax or inspection officials working in the area affected by the reform. Where the measures have already been partially implemented, as part or prior to the reform, data indicating results of such partial implementation may inform the expert judgement and render it more realistic. In some cases, targets of reform steps may also be helpful, for example when they are related to the number of inspections conducted in a year.

To avoid overestimating the revenues, the increase on collection efficiency should only be applied to the subgroup of taxes affected by the reform. The table provides some general guidance on building assumptions about increased collection efficiency and the tax base to which it applies.

Measure	Information that can be used for building an assumption about increased collection efficiency	Revenues affected by improved collection efficiency
Increased number of on-spot labor inspections	Results of inspections and audits in sectors or territories where they were already increased, available from annual inspection reports; RA targets if available.	Taxes and social contributions on wages paid in critical sectors that will be subject to increased inspections.
Increased number of tax inspections and audits	Results of inspections and audits in sectors or taxpayer groups where they were already increased, available from the tax authority; RA targets if available.	Taxes that will be subject to increased inspections and audits, paid by the targeted sectors or taxpayer groups.
Introduction of sectoral risk assessments	Results of risk assessment in sectors where it was already applied.	Taxes that will be subject to risk assessment, paid by the targeted sectors.
Digitalization of reporting and analysis of data	Results of digitalization for taxes or taxpayer groups where it was already applied.	Taxes that will be subject to digitalization paid by taxpayer groups obliged to report digitally.
Automated access to administrative data sources	Results of using automated data access for data sources, taxes or taxpayer groups where it was already applied.	Taxes and taxpayer groups for which a possible under-reporting will be assessed by using automated access to additional data sources.
Fiscalization, i.e. introduction of fiscal cashiers	Results of e-invoicing or fiscalization systems already introduced (e.g. reduction of the VAT gap, increase in the reported turnover), available from tax authority reports or pilot projects; RA targets if available; experience of regional partners.	VAT revenues.
Improved technology and skills of custom controls	Results of improved technology and skills at border control points where it was already applied.	Revenues from goods and services subject to import taxation.
Improved cooperation and data exchange between tax and customs authorities on the regional level and with the EU.	Results from joint audits or data matching exercises already implemented; detected discrepancies between import data and tax declarations.	Revenues from the VAT on imports, customs duties, excise duties.

Once a plausible assumption about the expected increase of collection efficiency has been formed, the calculation of additional revenues is straightforward. Assuming that the tax base and the tax system do not change, the increase in the revenues generated by the reform will be proportional to the increase in collection efficiency:

$$\text{Increase in revenues impacted by the reform (\%)} = \text{increase in collection efficiency (\%)}$$

$$\text{Additional revenues (EUR)} = \text{increase in revenues impacted by the reform (\%)} * \text{revenues collected before the reform (EUR)}$$

The measures for increasing collection efficiency may be part of one or several reforms. Care should be taken to include all such measures in the estimation, but also to avoid double counting in cases where the impact of some collection efficiency measures has already been estimated as part of reforms aimed at reducing the informal economy.

Additional revenues created by improved collection efficiency will be permanent, but cannot be expected to increase every year as the collection efficiency cannot keep increasing after reaching a level close to 100% of potential revenues.

REFORMS CREATING ONE-OFF REVENUES

Some reforms may create one-off revenues to the budget. The most typical example is payment of license fees for using the 5G network. The revenues are strictly one-off when the fee is paid only in the year when the right to use the network is awarded. If any recurrent annual payments are required, these should also be taken into account.

Privatization of SOEs is another reform that generates one-off revenues, i.e. the receipts from the sale of the state's ownership share. However, after privatization, the budget revenues will be lower by the amount of dividends, if any, that the privatized SOE had been previously paying to the budget. This is an example where the same reform generated both an increase and a decrease in revenues in different periods.

EXAMPLE: ESTIMATING REVENUES FROM 5G NETWORK LICENSE FEES

A potential level of collected fees can be estimated by consulting the operators expected to be interested in using the network, although they may tend not to reveal the maximum price, they would be willing to pay. Another approach is benchmarking, i.e. using and adjusting the data available for countries that have already introduced the 5G network. An example of such calculation is provided in the table below, using information on revenues from 5G network auctions in Croatia.⁵

Data	Information on the benchmark country (A)	Information on the reform country (B)	Correction factors (C)	Estimated revenues (D)
	Statistical data and official information	Statistical data and reform plans	B / A	Revenues in benchmark country * population correction factor * network coverage correction factor
Population (number)	3,878,981	3,531,159	0.91	
Network coverage (%)	100%	33%	0.33	
Revenues from 5G auctions (EUR)	47,650,044 EUR			14,309,308 EUR

5.3 SECOND-ROUND REVENUE IMPACT OF THE RA

Many of the reforms included in the RAs are expected to contribute to economic growth and employment. When this economic impact of reforms takes place, it will increase the tax base and create additional revenues for the budget. To estimate the second-round revenue impact of reforms, their impact on the economy needs to be estimated first. RGF beneficiaries have already invested considerable efforts in estimating economic impact of reforms, with preliminary results presented in 2025-2027 and 2026-2028 ERPs.⁶

Second-round revenue impact of reforms should be estimated on the basis of the total estimated economic impact of all reforms included in the RA and not separately for each reform. The main reason is that not all reforms have a direct impact on the economy, and even when they do, the impact of a single reform is often small and difficult to estimate precisely. Another reason is that using the total economic impact avoids double counting and may take account of synergies between reforms.

Three possible methods for estimating the second-round revenue impact are presented here.

Method 1. Using the estimated increase in GDP. The results of economic impact estimation are often presented as an additional GDP created by the reforms, compared to the baseline macro-economic forecast. A simple method for estimating second-round revenue impact is applying the current or forecasted share of tax revenues in GDP to the additional GDP created by reforms.

$$\text{Second-round revenue impact (EUR)} = \text{additional GDP created by reforms in Year X (EUR)} * \text{the share of tax revenues to GDP (\%)}$$

⁵ According to a report by the Croatian network regulator, a total of 358,995,433 HRK was paid to the budget for 15-year 5G licenses auctioned in August 2021 (<https://www.hakom.hr/en/hakom-awarded-radio-frequency-spectrum-for-the-fifth-generation-mobile-communications/9081>). Using the official conversion rate, this amounts to 47,650,044 EUR.

⁶ The methodological support for estimating economic impact of reforms is provided by the CEF's [Manual for Economic Impact Assessment of Structural Reform Measures in ERPs](#) and the related [learning platform](#).

- For the share of tax revenues to GDP, the share in the baseline year, the average over a period of several years, or the share implied by the official GDP and revenue forecasts can be used. Tax revenues include revenues from taxes, social contributions and other obligatory duties. Non-tax revenues, such as revenues from government's assets, receipts from sale of goods and services, fines, fees, charges, etc. are not included.

This method is admittedly simplistic, but easy to use. It can be used when other methods are not yet applicable, or as a useful plausibility check on results obtained by other methods.

Method 2. Using an alternative macroeconomic scenario. In some cases, the ERPs present an alternative macroeconomic scenario that includes the expected economic impact of reforms. The macroeconomic or the revenue department of the MoF can estimate budget revenues that would result from this alternative (upside) macroeconomic scenario and compare it with the revenues estimated on the basis of the baseline macroeconomic scenario of the ERP. For this purpose, the MoF can use any method that they customarily use for revenue forecasting, but the same method needs to be applied to both scenarios.

Second-round revenue impact (EUR) = budget revenues estimated on the basis of an alternative macroeconomic scenario that include the economic impact of reforms (EUR) – budget revenues estimated on the basis of the baseline macroeconomic scenario of the ERP (EUR)

As the implementation of the RA advances, some of the reforms' economic impact will already be reflected in economic data and thereby integrated in the baseline macroeconomic forecast. Unless a complicated effort is taken to estimate the already realized economic impact of reforms, or to produce another benchmark macroeconomic scenario without any reform impact, this method will result in estimating the remaining and not the total second-round revenue impact of reforms.

EXAMPLE

The 2025-2027 ERP of Montenegro presented impact estimation of investments expected to be financed from the RGF, amounting to around 200 million EUR. The economic impact was estimated by using the Montenegro Macro-Econometric Model. By using the model, not only the direct impact of investments on GDP, but also their impact on other economic variables was taken into account.

For example, higher investments generate jobs and additional demand for goods and services from domestic and foreign suppliers. Additional demand supports domestic economic activity and increases import. Additional employment increases the disposable income and generates additional demand for domestic and imported goods and services. Taking all these economic impacts into account, the net cumulative effect of investments on the real GDP was estimated at around 0.7% in the medium term. The ERP also reported the estimated impact on public consumption, export, import, and employment.

The results of the macroeconomic model were then used to estimate the increase in tax revenues, generated by investments. For example, additional employment needed for investment leads to additional budgetary revenues from taxes and contribution on wages. Additional demand for goods and services increases the revenues from VAT and the import duties. Overall, the fiscal impact of the Growth Plan investments was estimated at around 80 million EUR or 0.9% of budget revenues over a three-year period. The ERP also reported the estimated impact on revenues from the corporate and personal income tax, the social contributions, the VAT and the taxes on international trade and transactions.

Method 3. Using estimated revenue elasticities. This method requires some advanced analytical skills and may not be implementable by all users at the moment. It is explained here as a possible direction for improving the revenue forecasts in future.

Revenue elasticities are coefficients comparing the increase in revenues due to an increase in the tax base.

$$\text{Revenue elasticity} = \% \text{ change in specific revenue} / \% \text{ change in tax base for this revenue}$$

Revenue elasticities can be estimated from historical data using time series econometrics, provided that data series are sufficiently long and reliable. They are usually estimated for broad tax base and revenue categories, for example, the final consumption and VAT revenues, the aggregate household income or wage bill and the personal income tax revenues, the aggregated corporate income and corporate income tax revenues, the total CO2 emissions and the carbon tax revenues.

Estimating revenue elasticities only for the purpose of the second-round revenue impact of reforms in the RA would be overly time consuming even with good quantitative skills. However, when some elasticities have already been or can be estimated, they can be applied to the expected increase of the relevant tax base resulting from the reforms. The expected increase in the relevant tax base may in some cases be obtained from the alternative macroeconomic scenario with reform impact, or from the economic impact assessment of some reforms.

This method may underestimate the total second-round revenue impact when not all relevant tax base increases are taken into account. However, some elasticities may be used as part of the scenario method, for estimating some of the revenues on the basis of macroeconomic scenarios.

Using second-round revenue impact in the ERP. Since estimations of second-round revenue impact depend on two sets of uncertain estimations and assumptions – first about the economic impact and then about the translation of this impact into additional revenues – the results should, in principle, not be used in budgetary planning and in the ERP's fiscal framework, to avoid over-optimistic budgetary planning.

Time dimension of second-round revenue impact. Some of the second-round revenue impact will remain after the implementation of reforms. To assess the level of the permanent second-round impact, one would first need to estimate the economic impact of reforms that will permanently improve the functioning of the economy. In principle, this may be expected of reforms that result in a permanent change in the structure of the economy and in the institutional framework. The reforms most likely to create a lasting structural change are related to supporting technological innovation, better functioning of the labor market, improved education and the rule of law. However, even in these areas, a reversal of reform achievements is possible. For these reasons, we recommend keeping the estimation of the second-round revenue impact to the three-year period of the ERP.

6.

PRESENTING FISCAL IMPACT OF REFORMS IN THE ERP

Chapter 5 of the ERP should include a table presenting the expected fiscal impact of the RA on the ERP's fiscal framework for the next three years. The ERP Guidance does not determine the format of the table. We propose to use a table as outlined below. It includes all aggregate impact elements required by the ERP Guidance together with the estimation of the financing gap (if any).

No.	Impact of the reforms on the fiscal framework (EUR)	Year X	Year X+1	Year X+2
1	Additional budgetary costs of reform implementation			
2	Available financing sources			
3	Financing gap (1-2)			
4	Expected budgetary savings generated by the reforms			
5	Expected budgetary revenues from the RGF			
6	Expected budgetary revenues generated by the reforms			
7	Overall direct fiscal impact (4+5+6-1)			
8	Expected second-round revenues from the improved economy			
9	Overall fiscal impact (7+8)			

The narrative explanation of the table in the ERP could follow the outline suggested below, emphasizing that the fiscal impact was assessed relative to a baseline scenario without reforms.

ADDITIONAL BUDGETARY COSTS OF REFORM IMPLEMENTATION

Explain the most typical additional costs arising during reform implementation. Briefly explain the recurrent costs that will continue to accrue after the Year X+2 (for example, salaries of new employees, maintenance of new infrastructure and IT systems).

Name the reforms with the highest level of additional costs. Highlight any significant risks that may lead to unplanned increases of costs.

FINANCING OF REFORM IMPLEMENTATION

Explain how the estimated costs were included in the ERP's fiscal framework – have they been budgeted and will be covered by the budget within the existing expenditure limits? What other sources in addition to the budget will be used? If this is the case, name the reforms where a financing gap still exists and explain how it will be closed.

BUDGETARY SAVINGS GENERATED BY THE REFORMS

Name the reforms that will generate significant budgetary savings and state the key assumptions used in estimating the savings. Explain which of the estimated savings will continue after the Year X+2.

For reforms where savings are expected but it was not yet possible to estimate them, name the reforms and shortly explain why and when they are expected to generate savings. Explain whether any savings are expected for the sub-national budgets and whether they were estimated and included in the table.

Explain whether and how the estimated savings were integrated in the ERP's fiscal framework – for example, were the estimated reductions of expenditures allocated to other purposes, has the total expenditure limit been reduced by expected savings, or otherwise.

EXPECTED BUDGETARY REVENUES FROM THE RGF

Explain how the expected RGF disbursements were integrated in the ERP's fiscal framework – for example, were they fully included in projected budget revenues? Explain how the expected disbursements for steps not implemented by the deadline were taken into account.

BUDGET REVENUES GENERATED BY THE REFORMS

Name the reforms that will generate significant budgetary revenues and state the key assumptions used in estimating them. Explain which of the estimated additional revenues will continue after the Year X+2, and specifically mention one-off revenues (if any).

For reforms where additional revenues are expected but it was not yet possible to estimate them, name the reforms and shortly explain why and when they are expected to generate additional revenues. Mention the reforms, if any, which are expected to create additional revenues only after the Year X+2.

Explain whether and how the estimated additional revenues were integrated in the ERP's fiscal framework – for example, were they included in revenue projections used in the fiscal framework.

SECOND-ROUND REVENUES FROM THE IMPROVED ECONOMY

Explain how the second-round revenues were estimated, with reference to the economic impact assessment of reforms as presented in the ERP.

Explain whether and how the estimated second-round revenues were integrated in the ERP's fiscal framework – for example, were they included in revenue projections used in the fiscal framework.

7.

ANNEX THE EXCEL TOOL

Users may find it helpful to apply the working tables proposed by the manual for collecting and organizing the information on the estimated fiscal impact in a systematic way. The working tables are available in the Excel tool accompanying the manual. The tool consists of two files.

THE FILE “FIA MANUAL SCREENING TOOL AND RESULTS”

This file supports the initial screening of reforms for potential fiscal impact, as well as for collecting the results of costing, saving and revenue estimations for reforms, and preparing a summary table for Chapter 5A of the ERP.

We advise that this file is shared at an online location (a cloud or a shared folder) so that each implementing ministry or institution can enter information for their reforms.

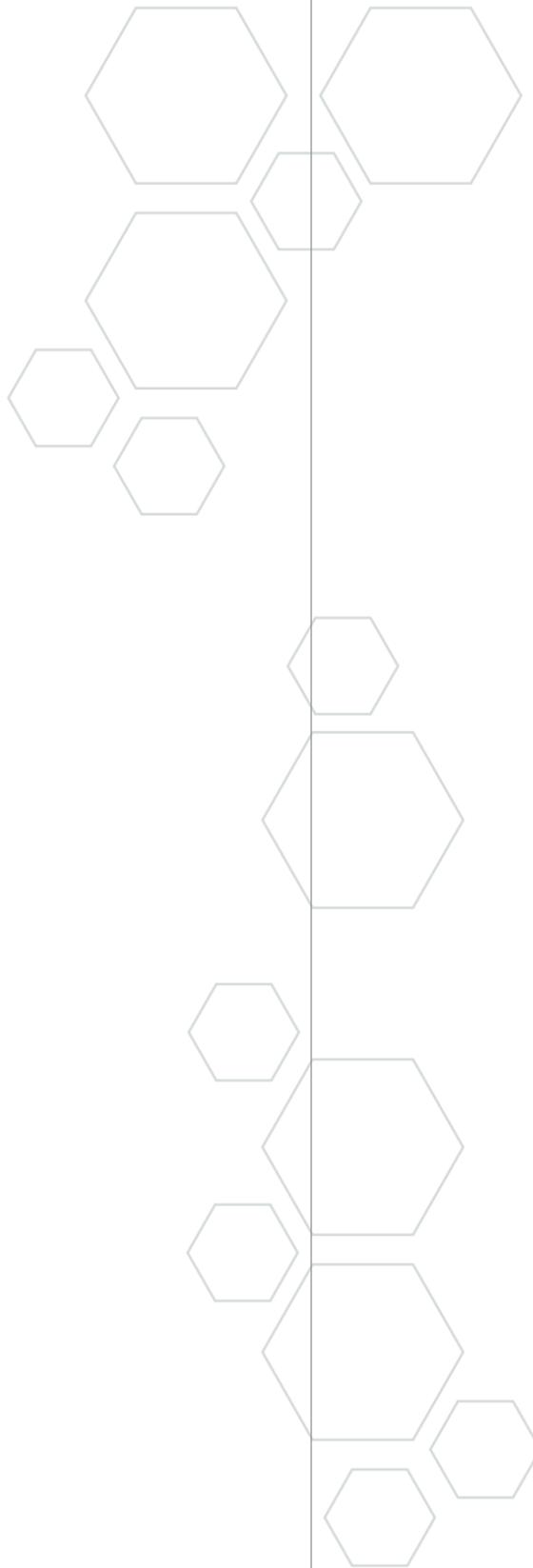


THE FILE “FIA MANUAL WORKING TABLES”

This file supports the collection of data on additional costs, financing sources, savings and revenues for a reform. A separate file needs to be used for each reform identified in the screening process as potentially generating additional costs, savings or revenues.



Here we provide an overview of the tool, while more detailed instructions are included in the files directly.



1. SCREENING OF REFORMS FOR FISCAL IMPACT

Excel tool: file “FIA Manual Screening tool and results”, sheet “Screening”

This tool requires the users to enter numbers and titles of reforms and indicate (by “y” or “n”) whether each reform is expected to generate additional costs, savings or revenues.

We advise that this file is shared at an online location (a cloud or a shared folder) so that each implementing ministry or institution can enter information for their reforms.

Number	Title of reform	COSTS	SAVINGS	REVENUES
		y	n	n
		y	y	n
		n	n	n
		n	y	y

etc.

- COSTS Will the reform implementation create any additional costs that will need to be covered by additional budgetary allocations?
- SAVINGS Does the reform have the potential to generate savings to budget expenditures compared to the current level?
- REVENUES Does the reform have the potential to generate additional revenues to the budget?

2. ESTIMATING ADDITIONAL COSTS OF REFORM STEPS AND ACTIVITIES

Excel tool: file “FIA Manual Working tables”, sheets “WT-Step1”, “WT-Step2”, etc.

The costing process starts by identifying activities that will need to be taken to achieve full implementation of the step. The ministry or institution responsible for implementation estimates the additional costs and enters the results in the tables.

Activity 1 Enter title of the activity here.					
Year	Salaries	Goods and service	Subsidies and transfer	Capital expenditures	Total
X	0	0	0	0	0
X+1	0	0	0	0	0
X+2	0	0	0	0	0

The tool provides space for up to seven steps for each reform and up to five activities for each step. The tables need to be filled only for activities that will generate additional costs.

Once the cost estimates are entered, the tool calculates the total additional costs of the step.

TOTAL COSTS OF STEP IMPLEMENTATION					
Year	Salaries	Goods and service	Subsidies and transfer	Capital expenditures	Total
X	0	0	0	0	0
X+1	0	0	0	0	0
X+2	0	0	0	0	0
Total	0	0	0	0	0

3. IDENTIFYING FINANCING SOURCES AND THE FINANCING GAP FOR REFORM STEPS

Excel tool: file “FIA Manual Working tables”, sheet “WT2-Sources”

The ministry or institution responsible for implementation enter information of financing sources available for each reform step. For information purposes, it also enters the RGF disbursements expected after successful implementation and verification of the step.

Using the costing information from the WT1 tables, which is automatically copied to this sheet together with the names of the steps, the tool calculates the financing gap for each step.

Step 1 National career center established and operational										
Year	Costs	Central budget	Local budgets	Other public finance	IPA funds	Other grants	Project loans	Total	Financing gap	Info: RGF disbursement
X	0	0	0	0	0	0	0	0	0	0
X+1	0	0	0	0	0	0	0	0	0	0
X+2	0	0	0	0	0	0	0	0	0	0
Total	0	0	0	0	0	0	0	0	0	0

4. SAVINGS AND REVENUES GENERATED BY THE REFORM

Excel tool: file “FIA Manual Working tables”, sheet “WT3-Savings and revenues”

For the reforms that are likely to generate budgetary savings or revenues, the ministry or institution responsible for implementation, in cooperation with the MoF, estimates the savings and revenues by year and enters the results in the table.

If the reform is not expected to create savings or revenues, or these cannot yet be estimated with sufficient precision, the tables are not filled in.

Reform	Reform title	
SAVINGS AND REVENUES GENERATED BY THE REFORM		
Year	Savings	Revenues
X	0	0
X+1	0	0
X+2	0	0
Total	0	0

5. SUMMING UP THE COSTS AND FINANCING SOURCES FOR THE REFORM

Excel tool: file “FIA Manual Working tables”, sheet “WT4-Summary”

The Excel tool uses the information entered in the working tables and calculates the total additional costs of the reform, the total available financing source and the total financing gap for the entire reform. The results are presented by years.

Reform	Reform title				
ADDITIONAL COSTS OF IMPLEMENTATION					
Year	Salaries	“Goods and services”	“Subsidies and transfers”	Capital expenditures	Total
X	0	0	0	0	0
X+1	0	0	0	0	0
X+2	0	0	0	0	0
Total	0	0	0	0	0

SOURCES OF FINANCING							
Year	Central budget	Local budgets	Other public finance sources	IPA funds	Other grants	Project loans	Total
X	0	0	0	0	0	0	0
X+1	0	0	0	0	0	0	0
X+2	0	0	0	0	0	0	0
Total	0	0	0	0	0	0	0

FINANCING GAP			
Year	Total additional costs	Total financing sources	Financing gap
X	0	0	0
X+1	0	0	0
X+2	0	0	0
Total	0	0	0

The same sheet also summarizes the information on any savings and revenues generated by the reform.

SAVINGS AND REVENUES GENERATED BY THE REFORM				
Year	Savings	Revenues	RGF	Total
X	0	0	0	0
X+1	0	0	0	0
X+2	0	0	0	0
Total	0	0	0	0

The ministry or institution responsible for implementation is requested to study the results and provide any necessary comments, for example regarding recurrent costs, major risks that could significantly increase the costs, and plans for closing any identified financing gap.

COMMENTS (IF NECESSARY)

In this space, provide any comment necessary to fully understand the costing results, for example:

- are there any recurrent costs that will need to be covered after Year X+2,
- if a financing gap was established, explain how it will be covered,
- are there any major risks that could significantly increase the costs,
- is there any financing provided for the reform outside the budget (for example, by donors or the private sector),

6. SUMMING UP THE ESTIMATIONS FOR THE ENTIRE RA

Excel tool: file “FIA Manual Screening and results”, sheet “Results”

For the reforms that were identified in the screening process as those that will generate additional costs, savings or revenues, the results of the estimation process need to be copied here from the WT4 in the other file. Use the “copy values” function in the Excel.

To help the users, the titles of reforms and the results of the screening process are automatically copied from the “Screening” sheet of this file.

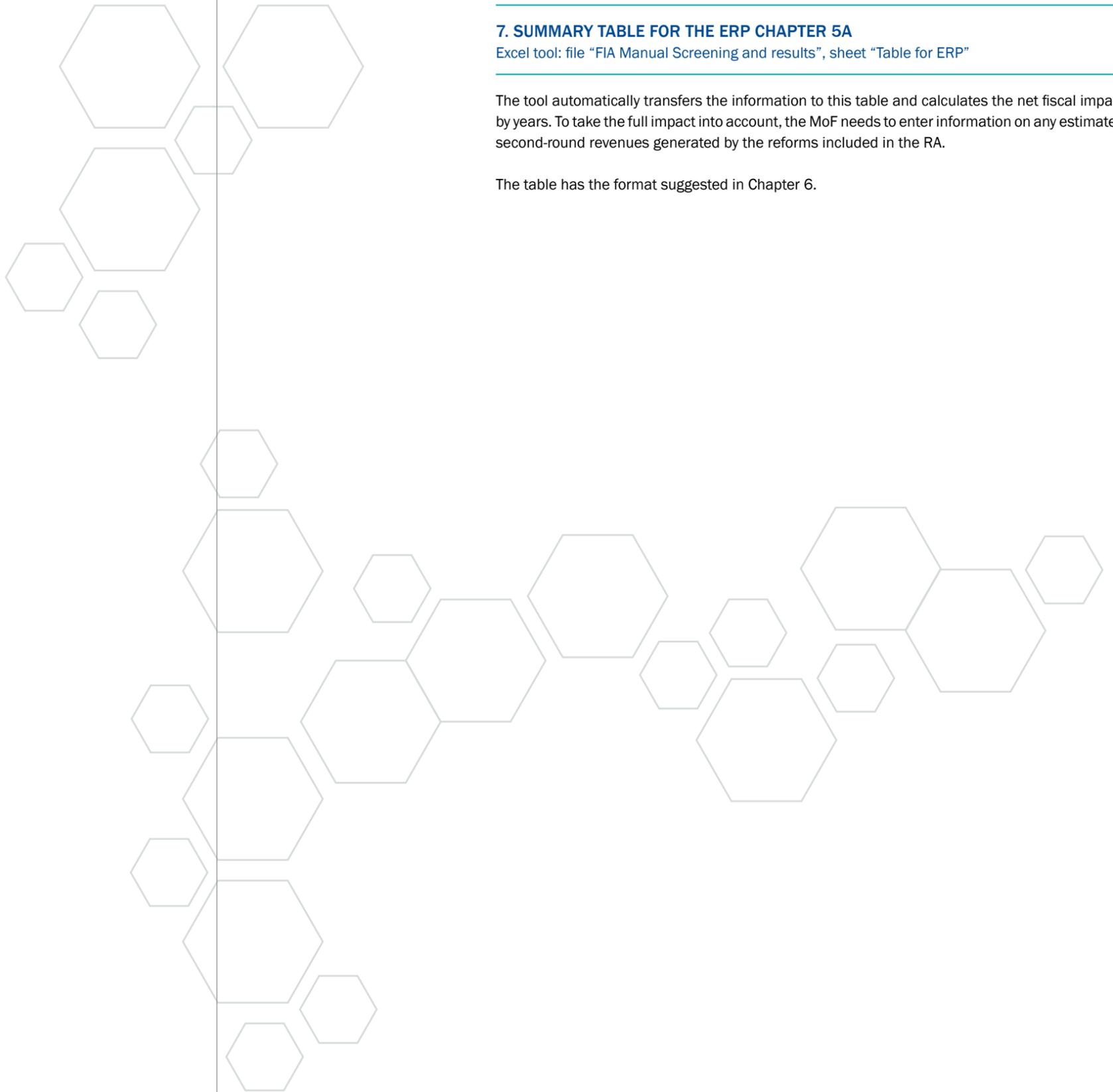
		COSTS	SOURCES	SAVINGS	REVENUES	RGF
Number	Title of the reform	y	n	n		
	Year X					
	Year X+1					
	Year X+2					
Number	Title of the reform	y	y	n		
	Year X					
	Year X+1					
	Year X+2					
Number	Title of the reform	n	n	n		
	Year X					
	Year X+1					
	Year X+2					
Number	Title of the reform	n	y	y		
	Year X					
	Year X+1					
	Year X+2					
etc.		0	0	0	0	0
	Year X					
	Year X+1					
	Year X+2					

7. SUMMARY TABLE FOR THE ERP CHAPTER 5A

Excel tool: file “FIA Manual Screening and results”, sheet “Table for ERP”

The tool automatically transfers the information to this table and calculates the net fiscal impact by years. To take the full impact into account, the MoF needs to enter information on any estimated second-round revenues generated by the reforms included in the RA.

The table has the format suggested in Chapter 6.



ABBREVIATIONS USED

CBAM	Carbon Border Adjustment Mechanism
CO2	Carbon dioxide (a greenhouse gas)
ERP	Economic Reform Programme
EU	European Union
IT	Information technology
MoF	Ministry of Finance
MRVA	Monitoring, Reporting, Verification and Accreditation mechanism for CO2 emission
MTFF	Medium-term fiscal framework
PIM	Public investment management
RA	Reform Agenda
RGF	Reform and Growth Facility for the Western Balkans / Moldova
SOE	State-owned enterprises
VAT	Value-added tax
WT	Working table (in the Excel tool)



GLOSSARY OF FISCAL IMPACT ASSESSMENT

Activity is a concrete operational task undertaken to implement a reform step or reform measure and contributing directly to the achievement of its defined objectives.

Additional costs are the costs incurred as a result of reform implementation compared to a scenario without the reform.

Additional spending / Additional costs of reform implementation are expenditures incurred as a direct result of implementing a reform, compared to a baseline scenario in which the reform is not undertaken, and which must be covered by the government budget or other public financing sources.

Alternative macroeconomic scenario is a macroeconomic projection that incorporates the expected economic impact of reforms and is used to estimate second-round revenue impact of reforms.

Analogy costing is a costing method that estimates costs based on data from previously implemented comparable activities.

Annual budget is the legally adopted financial plan of the government for a single fiscal year, specifying authorized revenues, expenditures and financing.

Baseline expenditure level is the reference level of spending, typically derived from the baseline year or official projections, against which reform-related savings are measured.

Baseline is the reference scenario or expenditure level against which reform-related fiscal effects are measured.

Baseline macroeconomic scenario is the macroeconomic forecast without additional reform impact, used as a reference for estimating second-round fiscal effects.

Baseline year is the year preceding the introduction of a reform, used as the reference point for assessing additional costs or fiscal effects.

Bottom-up approach in fiscal impact assessment is a method that calculates costs, savings or revenues by identifying and quantifying individual reform activities or components and aggregating them to the total reform level.

Budget ceiling is the maximum level of expenditure authorized within the annual budget or MTFF for a given institution or spending category.

Budget saving is a permanent or medium-term reduction in government expenditure resulting from the implementation of a reform, compared to the baseline level of spending.

Capital expenditures are the investments in infrastructure, equipment or assets required for reform implementation.

Central government budget is the officially adopted annual budget of the central government.

Conservative estimation approach is a cautious method of estimating savings and revenues that applies prudent assumptions to avoid overestimation and prevent unrealistic fiscal planning.

Consistency with previous costing is the requirement to use earlier cost estimates, but only if they remain realistic and are being updated when necessary.

Direct costs are the costs directly linked to the implementation of a reform activity.

Double counting is the incorrect practice of including the same fiscal effect (cost, saving, or revenue) more than once in the estimation of a reform's impact.

Double financing is the prohibited practice of financing the same reform activity from more than one EU funding source.

Economic classification of budget expenditures is the categorization of expenditures by economic nature (e.g. salaries, goods and services, subsidies and transfers, capital expenditures).

Economic impact assessment of reforms is an analytical process estimating how reforms affect GDP, employment, investment, or other macroeconomic indicators, forming the basis for second-round revenue estimates.

Effective tax rate is the ratio of actual tax revenues collected to the corresponding tax base, reflecting real collection outcomes rather than statutory rates.

Efficiency gain is the percentage reduction in expenditure achieved through improved efficiency, applied to the projected level of spending affected by the reform.

Efficiency of revenue collection is the percentage of legally due revenues that is actually collected, measured as collected revenues relative to the theoretical amount based on the tax base and statutory rate.

ERP Chapter 5A requirement is the obligation to quantify and present, in table form and narrative, the annual impact of reforms on revenues and expenditures and to explain how these effects are incorporated into the ERP fiscal framework.

ERP fiscal framework is the three-year macro-fiscal planning period defined by the EC's ERP Guidance, within which projected revenues, expenditures and fiscal balances are presented. It usually overlaps with the MTF period of the candidate countries and potential candidates.

Exchange rate is the official conversion rate used to translate foreign-currency amounts into national currency for costing purposes.

Expected revenues from the RGF are the projected direct increases in budgetary revenues arising from conditional RGF disbursements for those reform steps that the country assesses will be fully implemented and verified within the agreed deadlines or at least within the one-year grace period.

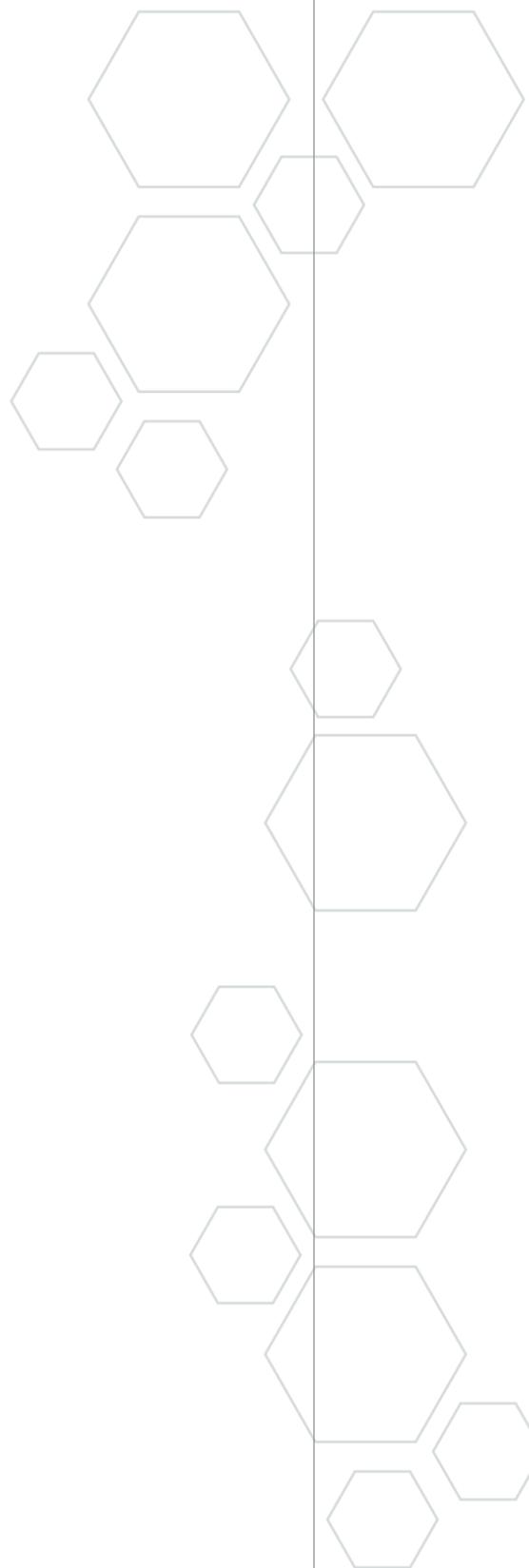
Financing gap / Funding gap is the difference between estimated additional costs of reform or step implementation and the realistically available financing sources.

Fiscal impact analysis is the process of identifying, quantifying and presenting the effects of reforms on government expenditures, savings and revenues.

Fiscal impact assessment is the systematic estimation of expenditures, savings and revenues resulting from the implementation of reform, including the identification of any financing gap.

Goods and services are the budget expenditures for externally purchased goods and services necessary for reform implementation.

Government (budget) revenues generated by a reform are additional or reduced public revenues resulting from the change created by implementation of the reform steps or measures or indirectly from their impact on economic activity, excluding conditional RGF disbursements.



Government budgeting or budget planning of reforms entails incorporating the estimated costs of reforms into annual and medium-term state budgets to the extent allowed by fiscal capacity, fiscal rules, and other funding priorities

Grants are the non-repayable financial contributions for reform implementation.

Implementation of reform is the execution of agreed reform steps, measures and activities in accordance with agreed agenda, leading to the achievement and verification of defined conditions.

Implementing institution/Responsible ministry is the ministry or public body responsible for the design and implementation of a reform and for providing the necessary financial information related to it.

Inputs for costing are data and information (e.g. quantities, unit costs, staffing needs, timelines) provided by the implementing institution to estimate the additional costs of reform activities.

Inputs for savings and revenue estimation are data and assumptions provided by the implementing institution to support the MoF in estimating the expected budgetary savings and revenue effects of reforms.

Intra-budgetary transfers are the earmarked transfers within the public sector, typically from central to subnational governments.

IPA funds are the EU pre-accession assistance funds allocated to support reform implementation.

Itemized costing is a costing method that estimates total costs by identifying and pricing each individual input required for an activity.

Market scoping is a costing method based on market price information or supplier offers for goods and services.

Measure is a specific, measurable, achievable, relevant and time-bound action within a reform, planned for completion in a defined year and subject to annual assessment of implementation. The measure is sequenced into the activities.

Medium-term fiscal framework (MTFF) is a multi-year budget planning framework that sets aggregate fiscal targets, expenditure ceilings and revenue projections to guide annual budget preparation and ensure fiscal sustainability.

Narrative explanation of fiscal impacts is the accompanying analytical text in the ERP or other document explaining the estimation of the fiscal impact and the integration of estimated fiscal effects into the fiscal framework.

National financing sources are the public funds originating from central, subnational or other domestic public institutions.

Off-budget financing is the external financing provided directly by donors or private sector outside the government budget framework.

One-off revenues are the non-recurring budget revenues generated by a reform in a specific year (e.g. auctioning of licenses, privatization), without automatic continuation in subsequent years.

Other grants are the approved non-IPA grant financing from international or other donors.

Output-based activities are clearly defined reform activities expressed in measurable outputs that allow quantification of costs.

Parametric costing is a costing method that estimates costs using key cost drivers (e.g. number of staff, participants, units).

Performance or result-based facility is a financing instrument under which disbursements are made only after the verified achievement of predefined reform steps, milestones, or results, in accordance with agreed conditions set out in the applicable regulation.

Permanent revenue effect is the sustained increase or decrease in budget revenues resulting from a lasting change in the tax base, tax rate, or collection efficiency.

Permanent savings are the sustained reductions in government expenditure resulting from reform implementation, whereby the required level of spending remains lower in each subsequent year compared to the baseline.

Policy is a coherent course of action adopted by a government to achieve specific public objectives within a defined sector or area or reform.

Priority investments are capital projects directly linked to and necessary for the implementation of a reform, contributing to the achievement of its defined objectives.

Fiscal framework of the ERP is the projection of public revenues, expenditures and balances for the medium-term period, on the basis of a defined fiscal strategy and measures, consistent with the most recently approved national MTFF and annual budget.

Private sector financing is the funding provided directly by private entities for reform-related investments or other measures.

Project loans are the approved repayable financing dedicated to reform implementation.

Realistically available financing sources are financing that is approved, secured or credibly expected at the time of budgeting.

Recurrent costs are the costs that repeat annually during or after reform implementation.

Reform is a set of policy measures aimed at systemically achieving a structural and lasting change in institutions, governance, or market functioning, contributing to clearly defined objectives and aligned with agreed strategic priorities.

Reforms with material fiscal impacts are reforms identified through screening as having significant potential effects on government expenditures, savings or revenues that warrant detailed fiscal impact assessment.

Revenue elasticity is a coefficient measuring the percentage change in a specific revenue category resulting from a one-percent change in its underlying tax base.

Revenue forecasting is the process of estimating future government revenues based on macroeconomic projections, tax policy parameters, and historical data.

Revenue loss from reform is a decrease in budget revenues resulting from measures such as tax/contribution rate reductions, elimination of fees, or simplification of charges.

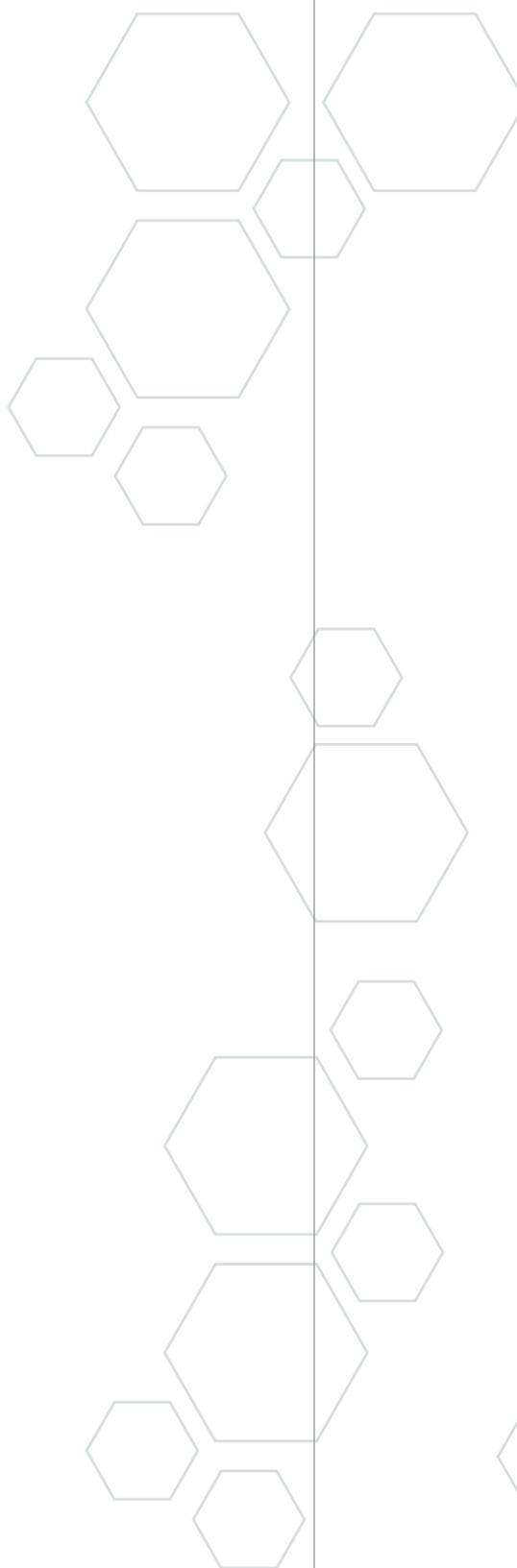
RGF disbursement is a conditional financial payment made to the government budget or WBIF under the RGF upon the verified implementation of agreed reform steps.

Salaries are gross remunerations, including taxes and social contributions, for newly hired staff required for reform implementation.

Savings accrual is the timing and pattern by which expenditure reductions materialize, usually after reform implementation or in advanced stages of execution.

Scenarios are the estimations or projections based on an alternative set of assumptions used to assess how reforms may affect economic indicators and budget revenues.

Screening reforms for their potential impact is a qualitative analysis aimed at identifying reforms that may have a significant impact on budget revenues or savings



Second-round revenue impact of the reforms refers to the indirect increase in budget revenues resulting from higher economic growth, employment and the expansion of the tax base, generated by the implementation of reforms.

Sources of financing are realistically available budgetary or external resources identified to cover the additional costs of reform implementation, including national budgets and other public financial sources such as off-budget public funds, EU funds, grants and loans.

Standard costs are predefined unit costs for recurring items used consistently in reform costing.

Step is a clearly defined set of reform implementation activities within the RA that leads to the achievement of a pre-defined and measurable indicator, whether quantitative or qualitative, whose verified achievement constitutes a condition for RGF disbursement.

Subnational government budgets are the approved budgets of municipalities, regions or other subnational authorities.

Subsidies and transfers are the budget payments provided to beneficiaries such as households, enterprises or institutions under a reform.

Summary table of fiscal impacts is a structured table in the ERP presenting the annual quantified fiscal impact of reforms in the ERP planning period.

Tax base is the economic value or quantity to which a tax or compulsory charge is applied (e.g. income, consumption, profits, emissions, number of licenses).

Tax rate is the statutory percentage or fixed amount applied to the tax base to calculate the amount of tax due.

Top-down approach in fiscal impact assessment is a method that derives aggregate fiscal effects from macroeconomic projections, behavioral assumptions or overall budgetary data when detailed activity-level estimation is not feasible or appropriate.

Year X is used in the tables and refers to the year following the one in which the estimation of fiscal impact is made, to match with the budget planning period which always start with the next year. For example, if the fiscal impact estimation is being done during the year 2026, Year X stands for 2027.



ABOUT THE CEF

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