

Fiscal Space Management in Post-Pandemic Economies: Transparency and Governance Challenges

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Abstract

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This study examines the role of fiscal transparency in preserving fiscal space during post-pandemic recovery, focusing on how governance practices, institutional capacity, and public financial management reforms shape economic resilience. It addresses the central question of how governments can balance immediate recovery needs with long-term sustainability in an environment of constrained fiscal resources. Using a systematic literature review of peer-reviewed studies, the article synthesizes evidence on the effectiveness of transparent fiscal frameworks, open data systems, and participatory budgeting in mitigating fiscal risks. The results highlight that countries with stronger institutional capacity, greater transparency, and citizen engagement were better able to manage debt, allocate resources efficiently, and sustain policy flexibility. The discussion integrates cross-country insights, emphasizing the governance dimensions of fiscal policy. The study concludes that embedding openness, accountability, and innovation into fiscal frameworks is essential for ensuring equitable, efficient, and sustainable post-crisis recovery.

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1. Introduction

The COVID-19 pandemic drastically altered fiscal dynamics across the globe, narrowing the fiscal space of many economies while exposing governance vulnerabilities. Celestin (2016) argue that fiscal space is not a fixed stock but a policy-sensitive margin determined by debt sustainability, financing conditions, and institutional credibility. The crisis underscored this point, as countries with stronger fiscal buffers, credible debt management, and sound governance entered the pandemic with greater capacity to mobilize resources. At the same time, the global downturn brought unprecedented pressures on public budgets, with collapsing revenues coinciding with surging expenditure needs (Chudik et al., 2021).

Fiscal governance and transparency have long been recognized as key determinants of how effectively fiscal space is created and preserved. As de Renzio and Wehner (2017) observe, greater fiscal openness, through clear reporting, accessible budget documents, and participatory processes, tends to improve budget quality and strengthen allocative efficiency. Conversely, where corruption undermines revenue mobilization and distorts expenditure priorities, the erosion of trust and compliance can sharply constrain governments' capacity to expand fiscal space. Litina and Palivos (2016) highlight how entrenched social norms, combined with weak enforcement, can facilitate tax evasion and resource leakage, creating a persistent drag on fiscal resilience.

The post-pandemic context also brought into focus the trade-offs between rapid fiscal intervention and accountability safeguards. Many governments resorted to extra-budgetary funds, emergency procurement, and discretionary transfers to

address urgent health and social needs. While such measures were often necessary, Chudik et al. (2021) find that their effectiveness in mitigating economic contraction depended heavily on pre-existing institutional capacity and fiscal conditions. In fragile governance environments, these emergency instruments risked bypassing standard oversight mechanisms, raising the potential for inefficiency or misuse.

The evidence also suggests that fiscal space management cannot be disentangled from the broader framework of public financial management (PFM) reform. Transparent and accountable PFM systems facilitate prudent debt issuance, effective cash management, and credible medium-term expenditure planning, all of which underpin sustainable fiscal space. At the same time, post-crisis consolidation strategies require a delicate balance: premature tightening risks stalling recovery, whereas delayed adjustment may jeopardize debt sustainability. The optimal path depends not only on macroeconomic fundamentals but also on governance quality, institutional trust, and political commitment to transparency.

Overall, the evidence underscores that fiscal space management in post-pandemic economies cannot be isolated from governance quality and transparency. Strong institutions, credible fiscal rules, and open budget systems emerge as recurrent enablers, while weak accountability mechanisms and corruption remain critical constraints. Yet despite the breadth of case studies and empirical analyses, a synthesis explicitly connecting these dimensions in the post-pandemic context is limited, highlighting the need for systematic review.

2. Literature Review

The concept of fiscal space has evolved from a narrow macroeconomic construct to one that incorporates governance, institutional capacity, and transparency. Heller first defined fiscal space as the capacity to increase public spending without endangering sustainability, a view later expanded by End and Hong (2022) to stress the importance of policy credibility, debt management, and institutional trust. More recent studies emphasize that fiscal space is shaped not only by fiscal indicators but also by the quality of public financial management (PFM) systems and the level of public confidence in institutions (Chudik et al., 2021).

Transparency and governance remain central to expanding and preserving fiscal space. de Renzio and Wehner (2017) observe greater fiscal openness, through clear reporting, accessible budget documents, and participatory processes, tends to improve budget credibility and strengthen allocative efficiency. Citro et al. (2021) show that transparent budget processes reduce political budget cycles, enhancing fiscal discipline and signalling credibility to markets. These findings suggest that governance reforms, especially those that reduce information asymmetries, can lower borrowing costs and bolster fiscal resilience.

Yet governance weaknesses often undermine these gains. Litina and Palivos (2016) find that permissive social norms towards corruption enable tax evasion, constraining domestic revenue mobilization. Haile and Niño-Zarazúa (2018) shows that in low-governance settings, public spending has a weaker effect on human development outcomes, indicating that fiscal space, even if expanded, may be inefficiently utilized. These governance constraints were especially visible during the

pandemic, when rapid fiscal expansion met with varying institutional capacities and oversight mechanisms.

Research on fiscal governance during crises highlights both risks and innovations. Schakel et al. (2018) report that countries with well-designed fiscal rules and independent oversight bodies maintained better control over emergency spending, while evidence from the pandemic shows that fiscal councils played a key role in providing independent analysis and transparency in fiscal policymaking (Davoodi et al., 2022). Chudik et al. (2021) note that fiscal support was most effective where governance frameworks ensured transparent targeting and timely disbursement.

Overall, the literature underscores that fiscal space management is inseparable from governance quality and transparency. Strong institutions, credible fiscal rules, and open budget systems emerge as recurrent enablers, while weak accountability and corruption remain significant constraints. Despite a substantial body of research, a comprehensive synthesis connecting these dimensions in the post-pandemic context remains limited, indicating the need for further systematic analysis.

3. Methods

This study employs a systematic literature review approach to synthesize existing scholarly evidence on fiscal space management, transparency, and governance challenges in post-pandemic economies. The review focuses on peer-reviewed journal articles, institutional reports, and policy analyses that examine fiscal policy frameworks, public financial management practices, and governance

mechanisms in the context of post-crisis recovery. A combination of academic databases, including Scopus, Web of Science, and Google Scholar, was used to identify relevant literature. Search terms included “fiscal space management”, “public financial governance”, “transparency in fiscal policy”, and “post-pandemic public finance”.

Selection criteria were based on the relevance of the study to the research theme, methodological rigor, and accessibility of full-text documents. Only sources from reputable journals and recognized institutions were included to ensure the validity and reliability of findings. Studies were screened to exclude non-peer-reviewed content, opinion pieces, and works lacking empirical or theoretical grounding. Data from selected studies were analyzed thematically to identify recurring concepts, governance challenges, and policy recommendations. This qualitative synthesis allowed for the integration of diverse perspectives from various economic contexts, offering a comprehensive understanding of how transparency and governance frameworks influence fiscal space management in the aftermath of the pandemic.

4. Results and Discussion

The literature synthesized in this review shows that fiscal-space management in post-pandemic economies is governed by a web of institutional capacity, transparency practices, and the composition and efficiency of public spending. Celestin (2016) emphasize that fiscal space is not simply a stock of resources but depends on credible institutions and debt-management policies. Empirical

evaluations of pandemic fiscal responses find large heterogeneity in effectiveness that tracks these institutional differences (Chudik et al., 2021). In other words, countries with stronger PFM systems, clearer fiscal rules, and more credible oversight were generally able to deploy larger and better-targeted measures without immediate solvency stress, whereas weaker governance frequently translated emergency spending into persistent fiscal strains.

Transparency repeatedly emerges as a key mediator of outcomes. Copelovitch et al. (2018) and Ababneh and Aga (2019) show that greater fiscal and financial-data transparency is associated with lower sovereign borrowing costs and reduced incentives for creative accounting. De Renzio and Wehner (2017) further document that fiscal openness, timely publication of budget documents plus participatory channels, tends to improve budget credibility and public accountability, though the strength of those effects is conditional on enforcement capacity. Recent systematic reviews of e-government and corruption find that digital tools (e-procurement, disclosure portals, e-budgeting) can reduce opportunities for rent extraction, but their anti-corruption impact depends on design, standards, and institutional follow-through (Mackey & Cuomo, 2020; Khan et al., 2021). Thus, digital transparency is powerful but not a silver bullet: technical solutions must be matched by rules and capacity if they are to preserve or expand fiscal space.

Institutional design matters too. Cross-country work on fiscal rules and oversight bodies shows that well-crafted rules and independent fiscal councils can anchor expectations and reduce procyclicality, but poorly designed rules or weak monitoring simply shift incentives toward accounting maneuvers (Reuter, 2019).

The IMF's recent analysis of fiscal rules and fiscal councils during the pandemic confirms that independent institutions helped some countries maintain better medium-term discipline, even where temporary rule suspensions were necessary to finance emergency needs (Davoodi et al., 2022). The policy challenge is therefore sequencing: permit enough flexibility for an effective short-run response without permanently weakening the frameworks that underpin market confidence.

A complementary strand stresses spending composition and efficiency. Studies of public investment across diverse country samples find that productive investments such as education, health, and well-chosen infrastructure yield higher growth dividends and can expand long-run fiscal capacity if executed efficiently; by contrast, unproductive or poorly implemented capital projects erode fiscal returns (Ocolișanu et al., 2022). Moreover, evidence on digital PFM (e-procurement, e-budgeting) highlights measurable efficiency gains and fewer leakages when systems are thoughtfully implemented alongside standardization and audit capabilities (Mackey & Cuomo, 2020). Governance quality thus conditions whether spending translates into durable fiscal space.

Finally, external support and technical assistance can bolster recovery when targeted to institutional strengthening. Multilateral engagement that combines financing with PFM capacity building and transparency conditions has supported more sustainable recoveries in a number of cases, but dependency and poorly aligned conditionalities remain risks (Gaspar et al., 2019). Overall, the evidence points to a dual strategy: preserve response capacity via credible buffers and flexible, but accountable rules, and invest in transparency, oversight, and spending quality so that

emergency outlays convert into long-term fiscal resilience. Reforms must be context-sensitive, sequenced, and accompanied by capacity development to avoid superficial compliance and to truly expand fiscal space while protecting accountability.

5. Conclusion

The management of fiscal space in post-pandemic economies requires a careful balance between short-term recovery needs and long-term sustainability goals. The results indicate that countries that adopted transparent fiscal frameworks, coupled with sound governance and prudent macroeconomic management, were better positioned to maintain stability while advancing development objectives. Strengthening budgetary transparency, improving accountability mechanisms, and integrating inclusive governance practices enable governments to navigate fiscal pressures from economic shocks without undermining future policy flexibility.

Institutional capacity emerged as a decisive factor in ensuring fiscal resilience. Evidence from the analysis shows that open fiscal data systems, participatory budgeting, and the integration of digital tools in public financial management can reduce inefficiencies, curb debt mismanagement, and improve the alignment of spending with national priorities. Transparency, in this sense, is not merely a reporting function but a strategic governance approach that enhances fiscal discipline and strengthens public trust.

Looking ahead, preserving fiscal space will require a coordinated approach that blends robust institutions, citizen engagement, and innovation in fiscal management. Embedding openness and accountability into fiscal frameworks can

bolster governments' capacity to respond swiftly and effectively to future crises, ensuring that recovery efforts are equitable, efficient, and sustainable.

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