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*MINISTRY of FINANCE of the REPUBLIC of ESTONIA*

# Budgeting in Estonia

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2th of October 2014

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# Topics

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- Fiscal Policy and Budget Process
- Public Finance Management Reforms and Changes in State Budget Law

# Estonia (Population 1,3 million)

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- 1991 – Regaining independence
- 1992 – Monetary reform and a new Constitution
- 1997 – EU membership negotiations
- 2004 – Member of EU and NATO
- 2011 – Joined the Euro-zone



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# Fiscal Policy and Budget Process

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# Planning and budgeting process

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- Budgeting period is the following year + 3 years
- Budget year starts on the 1st of January and ends on the 31 st of December
- Timetable is set by the Government

# Budgeting principles and budget structure

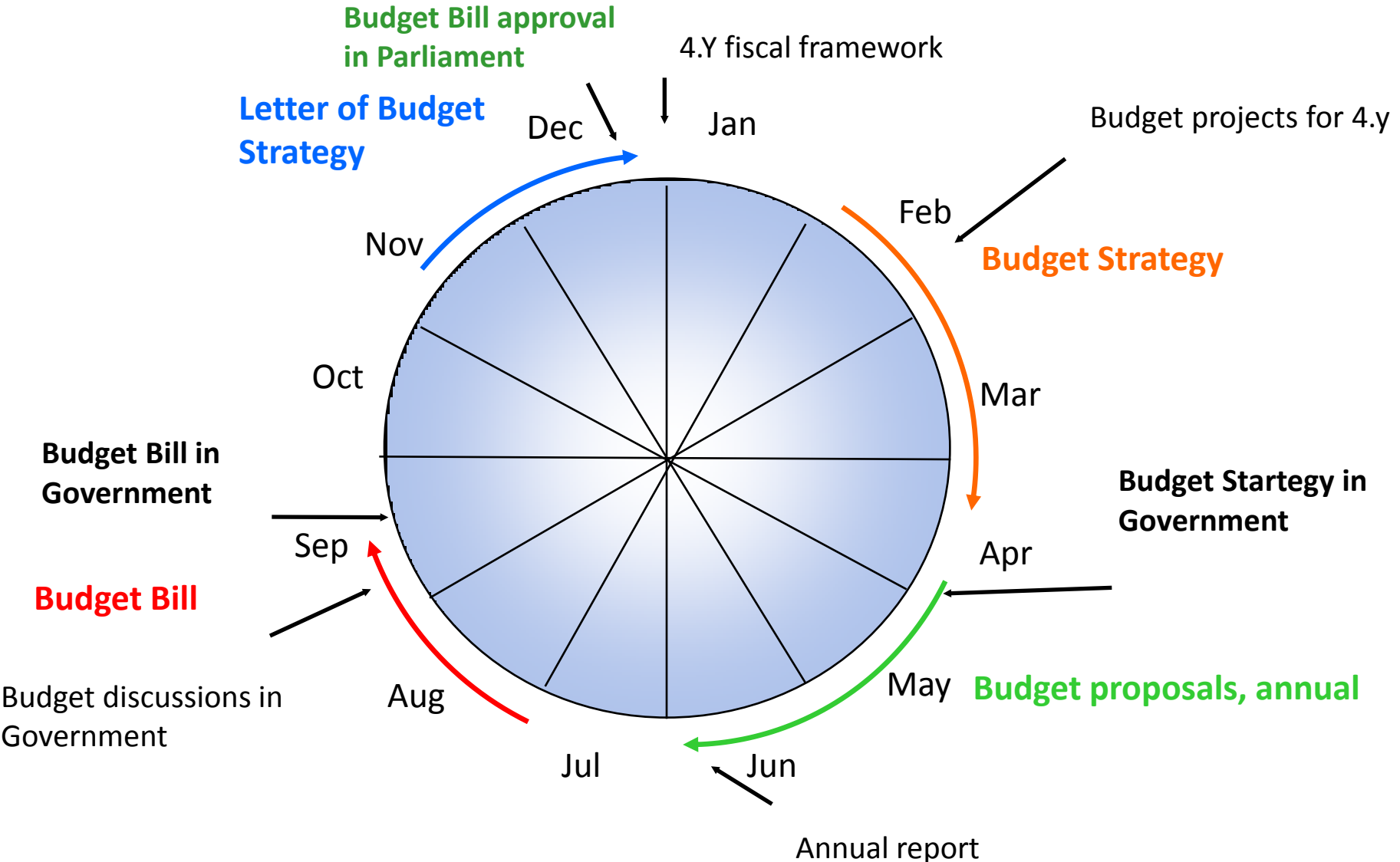
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## Stage 1- State Budget Strategy- approved by Government

- Strategic planning, based on a medium-term budgeting framework

## Stage 2- Annual budget-approved by the Parliament

- Line-item cash-basis budgeting in practice
- The budget law contains only appropriations for the budget year
- Explanatory notes of the budget include also programs and related annual estimates



# Role of Parliament Committees in the budget process

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- Finance Committee
- Committee on Budgetary Control
- Committee on European Union Affairs
- State Budget Strategy and Stability Programme
  - Consultation in May
- State Budget
  - Discussions from October to December



# General Government Budget position (sept 2014)



# Culture of prudence – enables to switch on the autopilot

- Sound fiscal management since transition - natural preference of conservative fiscal policy
- Small and efficient government sector
  - Total government expenditures 40% of GDP
  - Central government 75% of general government
- Stakeholder accountability (by state, by tax-payer, as a member of eurozone, NATO)
- Mid-term budgetary objective “balanced or in surplus” well rooted informally for a long time

# Public Sector Structure

## *Public sector*

### *General Government*

### **Other Public Sector institutions, not part of General Government**

*Central government*

*Local government*

*Social security funds*

State Agencies

City- and rural institutions

Health Fund

Central Bank

Central Government Institutions - foundations, companies and non-profit organizations

Local Government institutions - foundations, companies and non-profit organizations

Estonian Unemployment Insurance Fund

Public Sector Companies: Eesti Energia, Tallinna Sadam, Estonian Air; Eesti Raudtee; jm

Central Government Institutions – public institutions (Public Broadcasting)



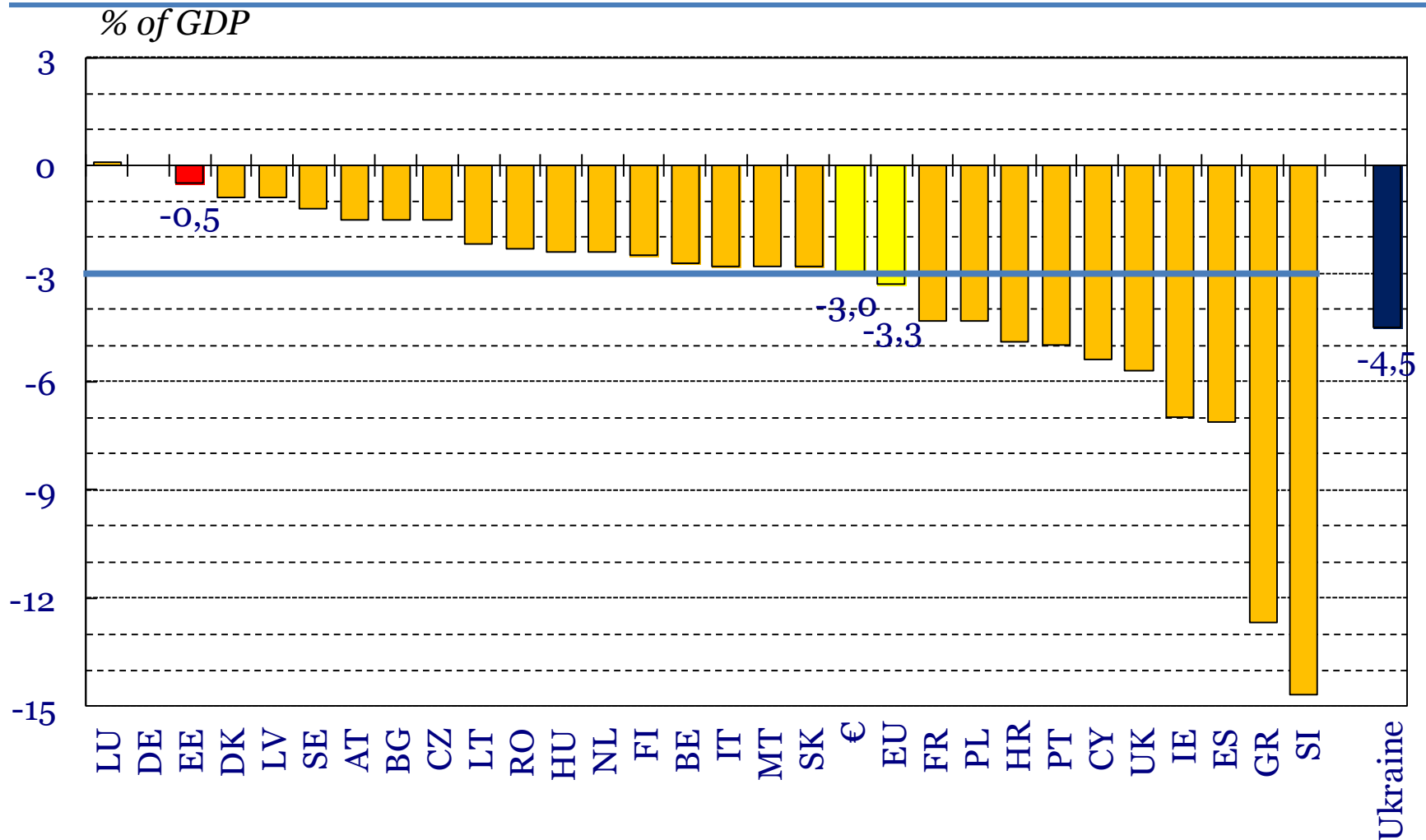
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# EU vs Ukraine fiscal indicators

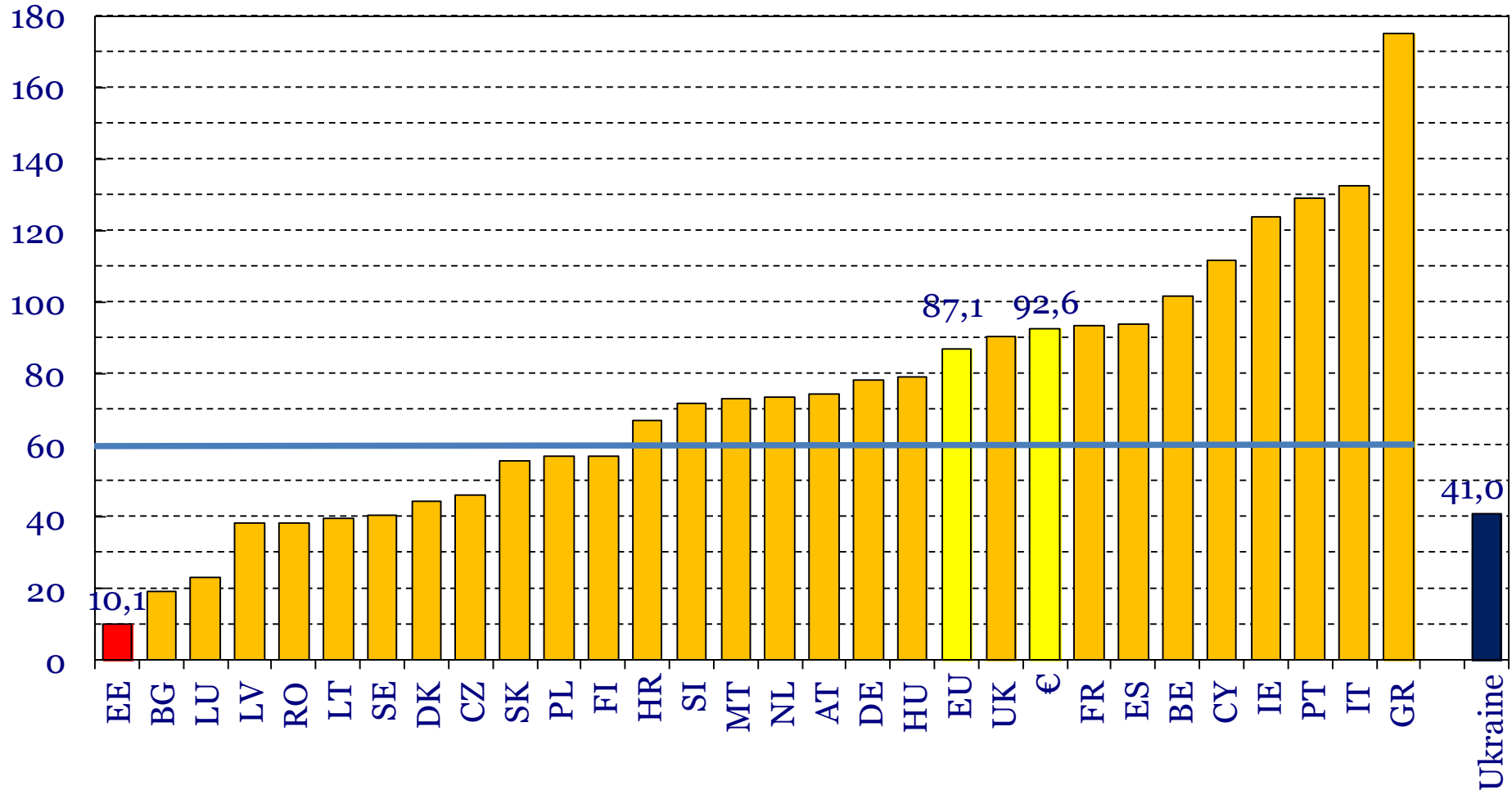
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# General government deficit/surplus in 2013



# General government gross debt in 2013

% of GDP





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# Public finance reforms

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# Where we are?

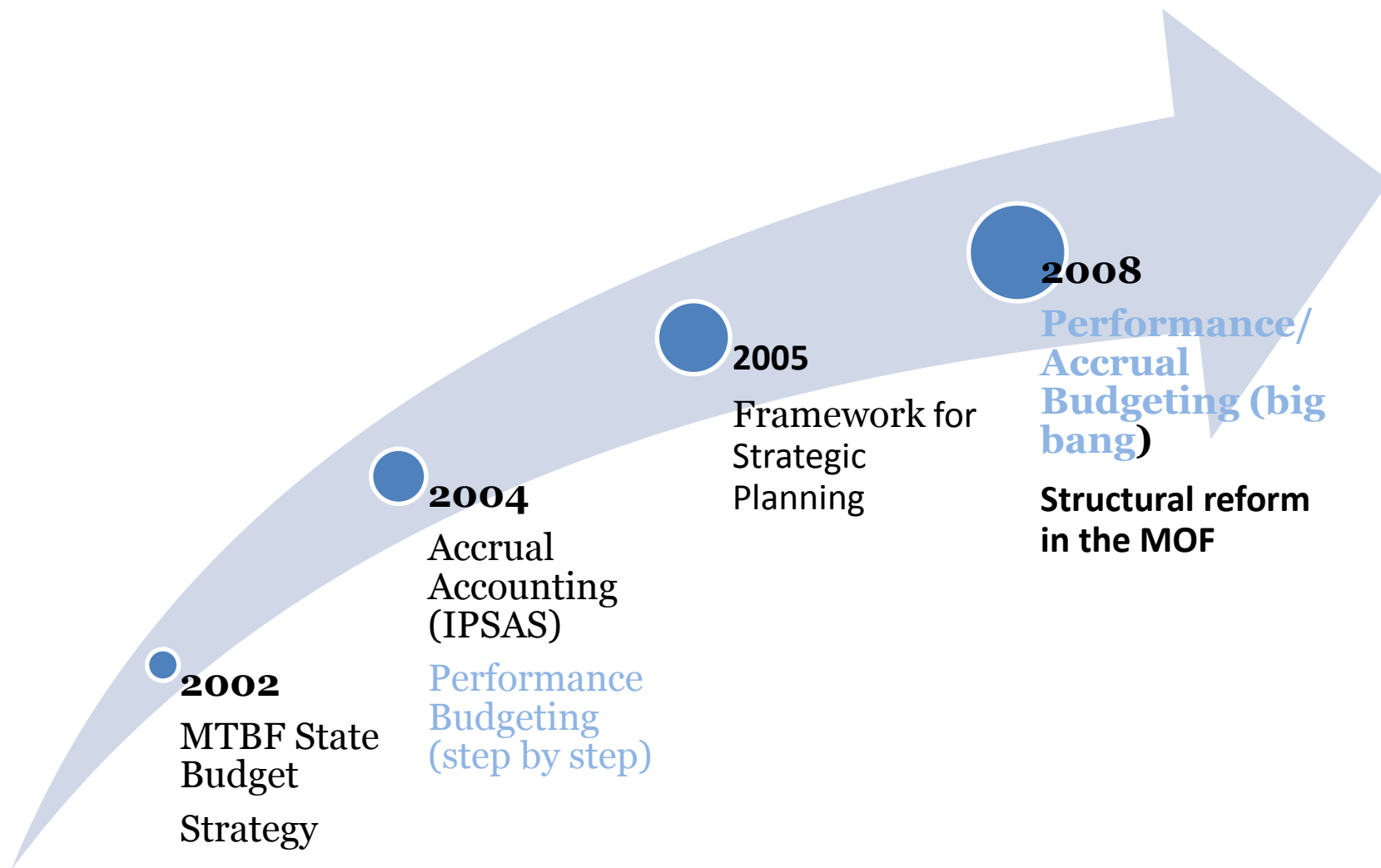
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- 2013 – change of the budget structure
- 2014 – new state budget law
- Standards for accounting objects and financial reports
- Accrual information in the budget process
- Programm based budgeting – cost accounting



# History of public finance reforms before the crisis

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# Reports from accrual accounting

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## To whom?

- International organisations
- Politicians; Managers

## What for?

- Transparency
- Information about assets and liabilities
- Precondition to calculate cost of services

## How to put into practice?

- Evoke demand
- Establish preconditions to change the system (capacity)

# Public finance reforms on the way

- Mapping shortages in current system, simplifications

- **Centralizing support services**

- *Building capacity to work out and implement changes (networks, pilot, projects, methodology, trainings, IT, systems)*

**2009**

**2010**

- Performance Management framework and implementation plan (10y)

- **Centralizing support services**

- *building capacity*  
- *pilots in accrual budgeting and performance management*

- *Standardizing financial data*

- *Regular networks (FM, SM, ABB)*

**2011**

- Harmonization of budgeting and accounting

- Standardizing management accounting

- **Centralizing support services**

- *building capacity*

- *Pilots in accrual budgeting and performance management*

- *Trainings to rise the competence about basics of financial management (220)*

- *IT systems for strategic planning and budgeting*

**2012**

- Harmonized principles in FM and new budget structure in annual budget law

- **Centralizing support services**

- *preparing standard SAP system for all central government agencies*

- *Building capacity*

- *Trainings to change the budget systems in agencies*

- *Training plans for 2013 cooperation with university how to make budget in accrual basis (300)*

# Public finance reforms on the way

- Accrual basis budgeting step by step (45%)

- **Centralizing support services (45%)**

- Building capacity
- *trainings for accrual basis budgeting*
- *trainings to change the budget systems in agencies*
- *New IT system for budgeting*
- *pilot projects in PM and budgeting*

**2013**

**2014**

- Accrual basis budgeting step by step (64%)

- **Centralizing support services (64%)**

- *Building capacity*
- *Trainings to change the budget systems in agencies*
- *Trainings for accrual basis budgeting*
- *New IT system for budgeting*
- *Pilot projects in PM and budgeting*

**2015**

- Accrual basis budgeting step by step (100%)

- **Centralizing support services (100%)**

- Program budgeting step by step (0,5%)
- *Building capacity -pilot projects in PM and budgeting*

# New State Budget Law



# Main changes in State Budget Law

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- **Balanced budget rule;**
- budget rules for institutions in general government;
- independent budget council - assessment of macroeconomic prognosis and fulfillment of budget rule;
  
- budget ceilings;
- accrual-based budgeting;
- changes in strategic management;
  
- **activity-based budgeting;**
- **changes in cash flow management**

# Lessons learned

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- **Performance management framework and implementation plan give the vision and help to set reform priorities**
- Changes in accounting system should be harmonized with budgeting system – **financial management cycle**
- **Budget negotiations – important of accrual information**
- **Accrual accounting reform brings more transparency and information**
- Accrual budgeting and accounting reform is **precondition for performance budgeting**





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Thank You!

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