

# **The OECD Budgeting Survey 2012**

## **- Institutional Frameworks – Preliminary Results**

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# Background and Context

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- **The last *OECD Budgeting Survey* was carried out in 2007, on the eve of the crisis**
- **Near complete coverage of OECD countries; preliminary date**
- **Quality control on-going**
- **Self-reporting**

# Common Reform Drivers

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- **Requirement for strong top-down discipline**
- **Re-prioritisation of scarce resources**
- **Credibility**
  - With peers
  - With markets
- **EU fiscal governance requirements**

# Survey Results and Implications

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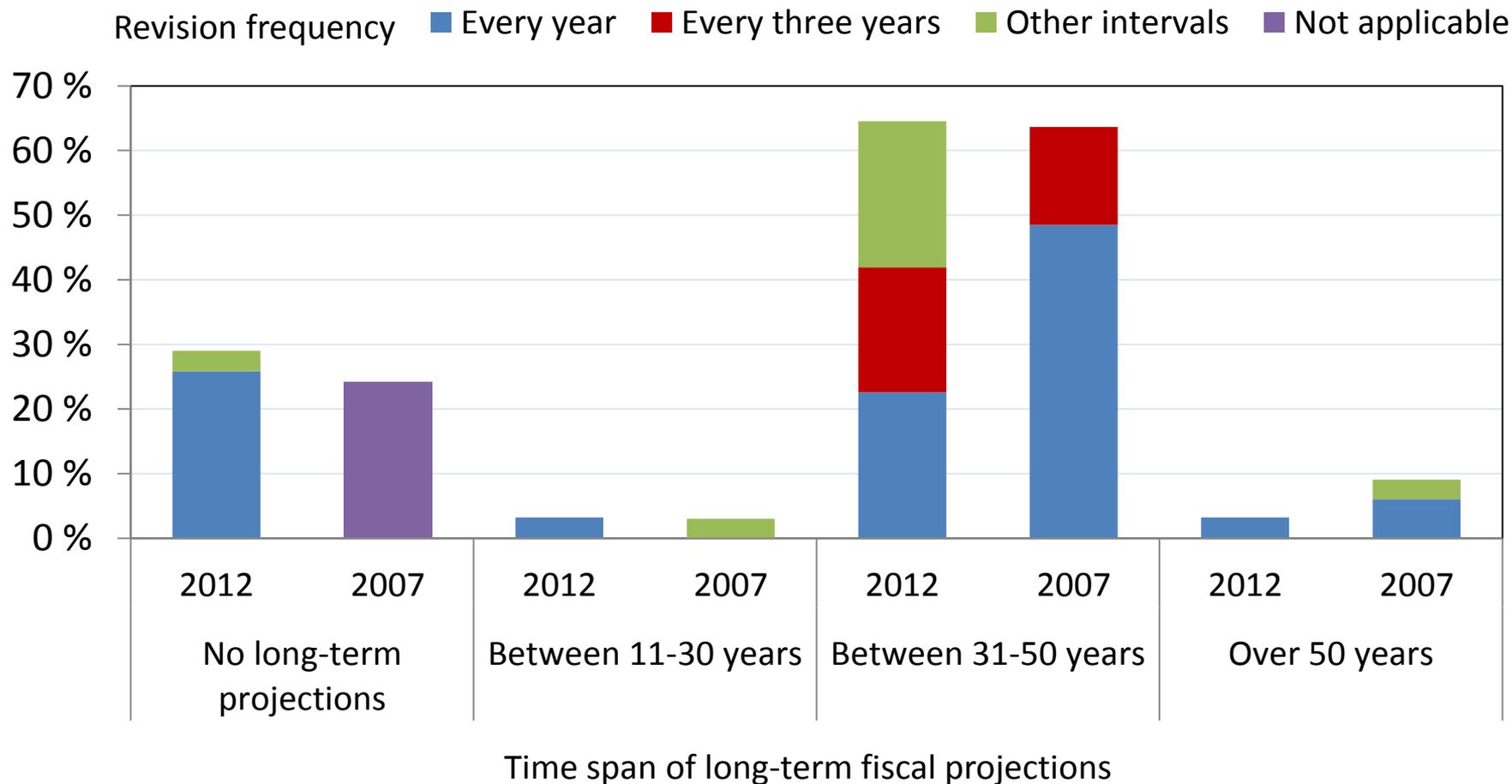
- **Fiscal Sustainability and Fiscal Rules**
- **Budget Transparency**
- **Top-Down Budgeting and MTEFs**
- **Performance Budgeting**

# Fiscal Sustainability and Fiscal Rules

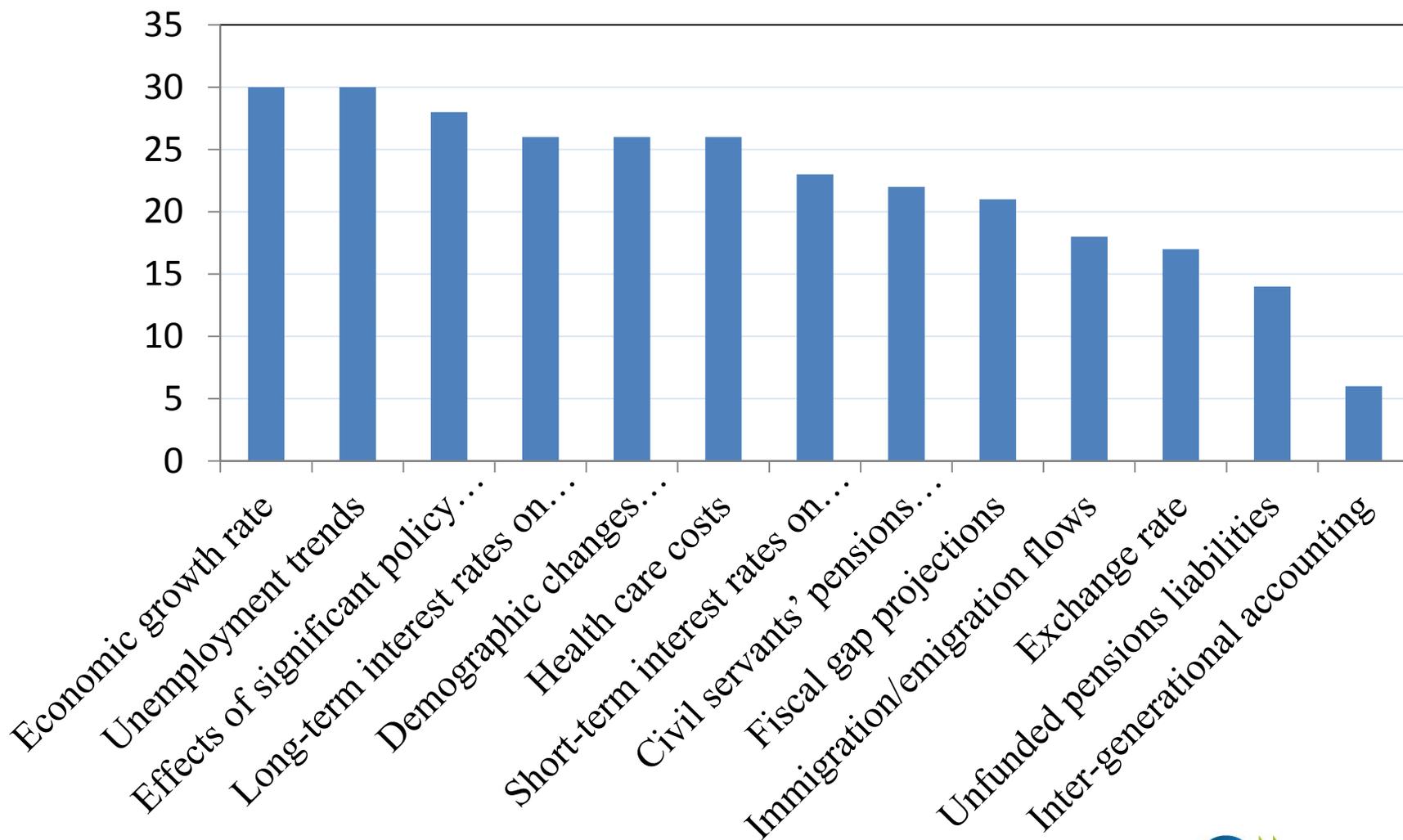
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- Ability to maintain public finances at a credible and serviceable position over the long run, taking into account debt service costs and future socio-economic and environmental factors
- Long-term fiscal projections can play a useful role; assessment of risks and sensitivity analysis with parameters and underlying assumptions are means to factor in uncertainties
- Fiscal rules serve to promote fiscal responsibility by constraining political decisions by the legislature and by the executive

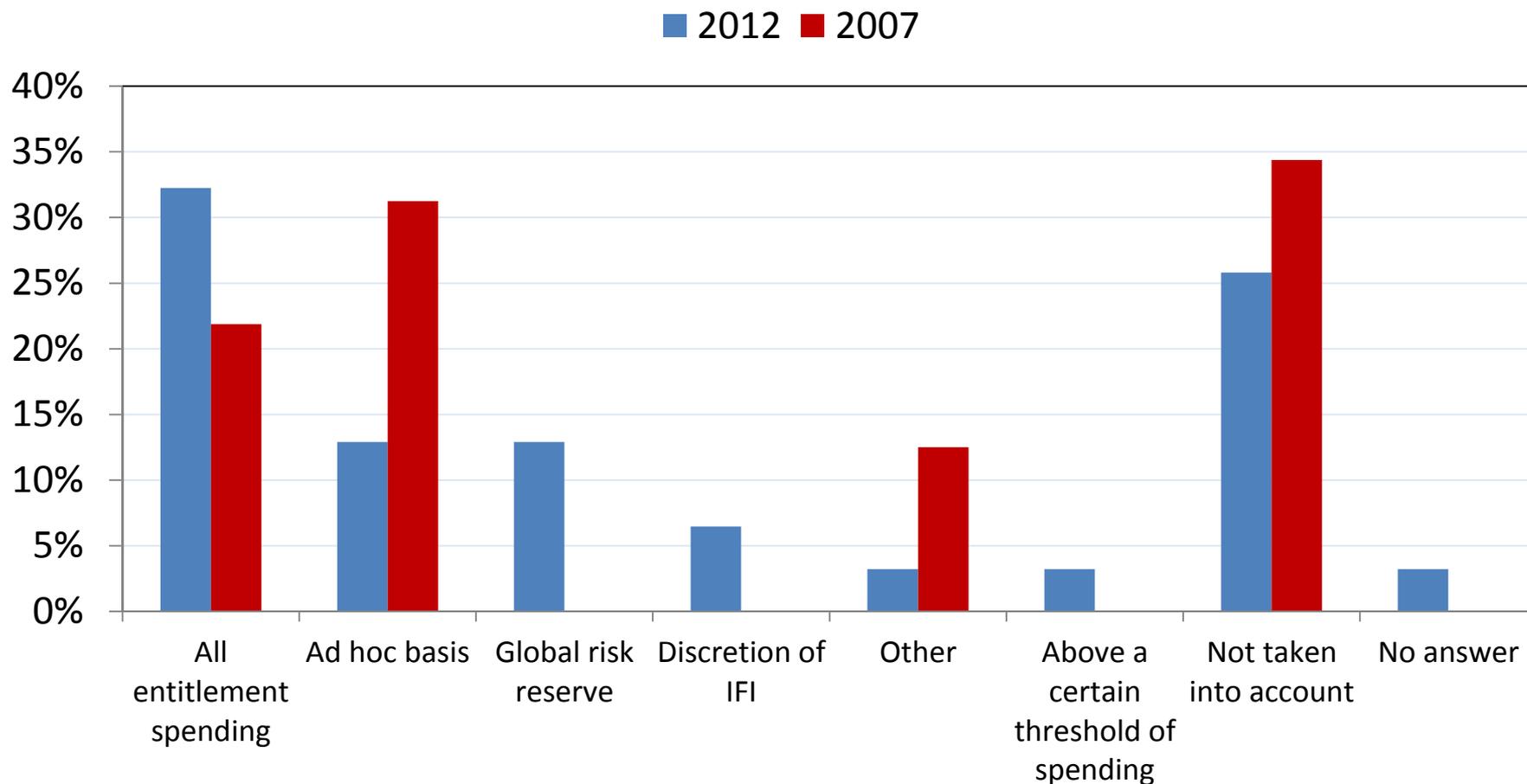
# A small fall in the number of countries that produce long-term fiscal projections



# Factors considered in the long-term fiscal projections



# More countries take risk into account



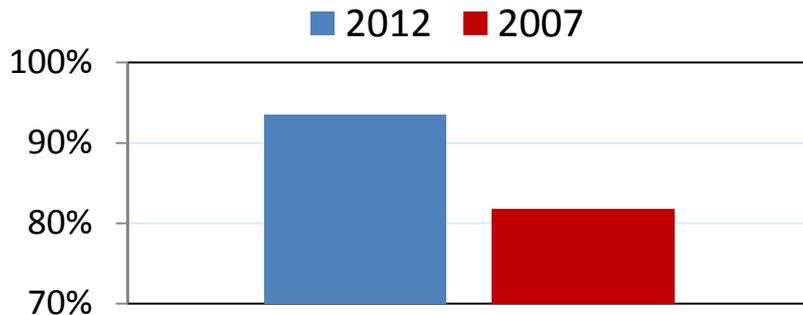
# Country Examples – Long-term Projections

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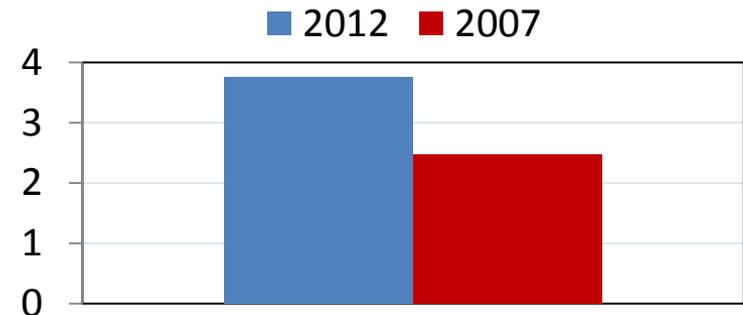
- **Australia:** Since 2009-10, budget documents include fiscal projections over the long term, calculated using the Fiscal Aggregate Projection model (FAP)
- **Austria:** Starting in 2013, long-term projections covering 30 years are prepared
- **Korea:** Since 2012, comprehensive long-term fiscal projections to systematically analyze fiscal risks such as increases in pension and health-care costs due to population ageing.
- **Slovenia and UK:** New fiscal councils produce long-term fiscal projection reports

# More countries using an increasing number of fiscal rules

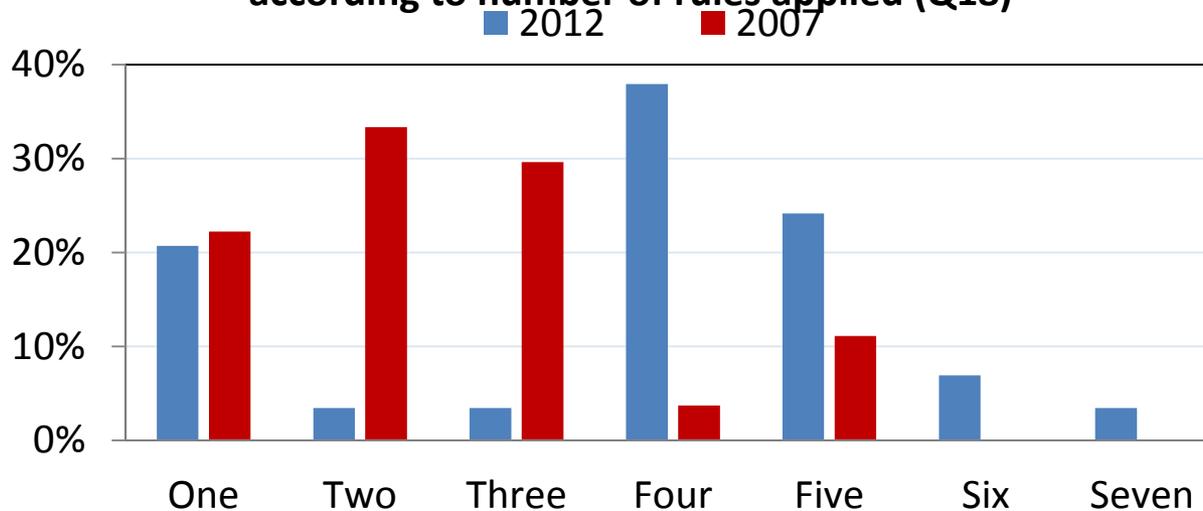
**Fig. 2.9 Percentage of OECD countries using fiscal rules (Q18)**



**Fig. 2.10 OECD average number of fiscal rules when applied (Q18)**



**Fig 2.11 Percentage of countries using fiscal rules according to number of rules applied (Q18)**



# Budget balance and debt rules are most used

Fig. 2.12a Percentage of OECD countries using fiscal rules, according to type of rules (Q18)

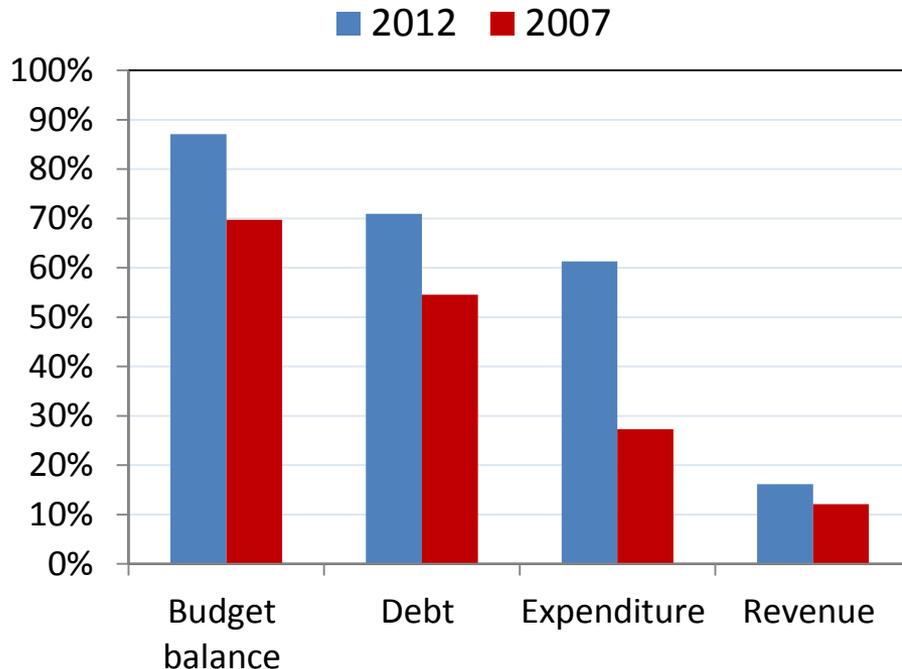
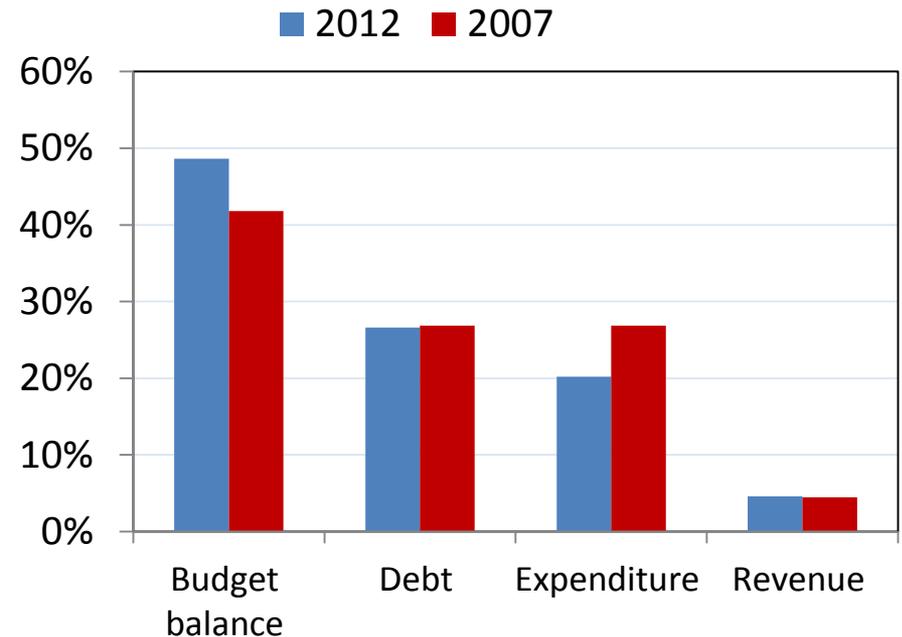
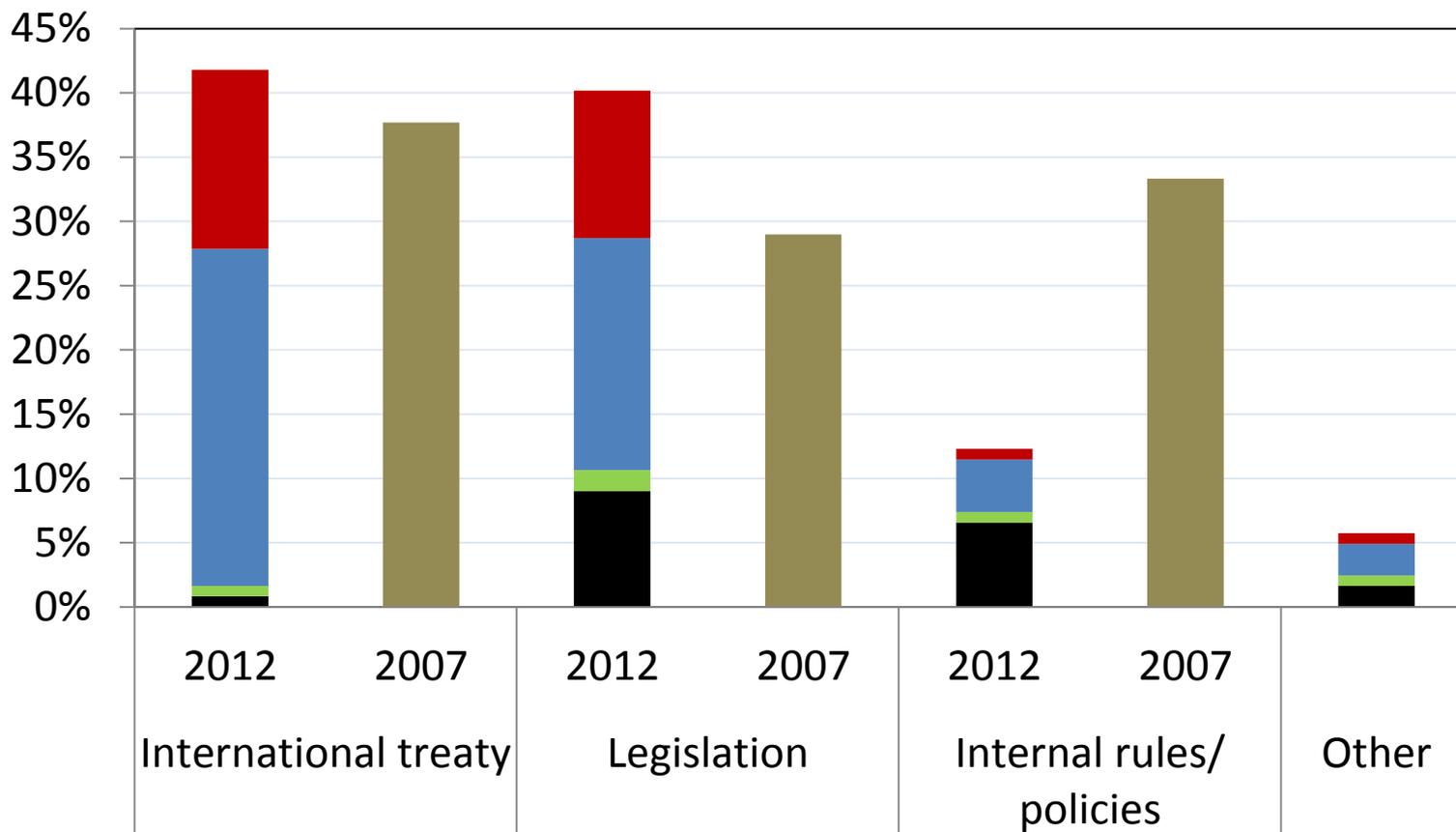


Fig. 2.12b Fiscal rules used by OECD countries, according to type of rules, as a percentage of total number of fiscal rules (Q18)



# Legal basis for fiscal rules

- Expenditure rules
- Revenue rules
- Budget balance rules
- Debt rules



# Country examples – fiscal rules

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- **Australia:** Not very hard hit by the crisis but committed to maintaining a 2% annual cap on real spending growth, on average, until surpluses are at least 1% of GDP
- **Germany:** An amendment of the Constitution in 2009 replaced the golden rule by the debt brake – a new cyclically adjusted budget balance rule
- **Korea:** The 2011-15 National Fiscal Management Plan strengthened the fiscal rule that keeps the growth rate of expenditures three percentage points lower than that of revenues until fiscal balance is achieved in 2013
- **Poland:** New temporary expenditure rule, binding as of 2011, is intended to limit the growth rate of discretionary and new legally mandated expenditure
- **Sweden:** New budget act makes it mandatory for the government to propose a surplus target (general government net lending)

# Survey Results and Implications

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- **Fiscal Sustainability and Fiscal Rules**
- **Budget Transparency**
- **Top-Down Budgeting and MTEFs**
- **Performance Budgeting**

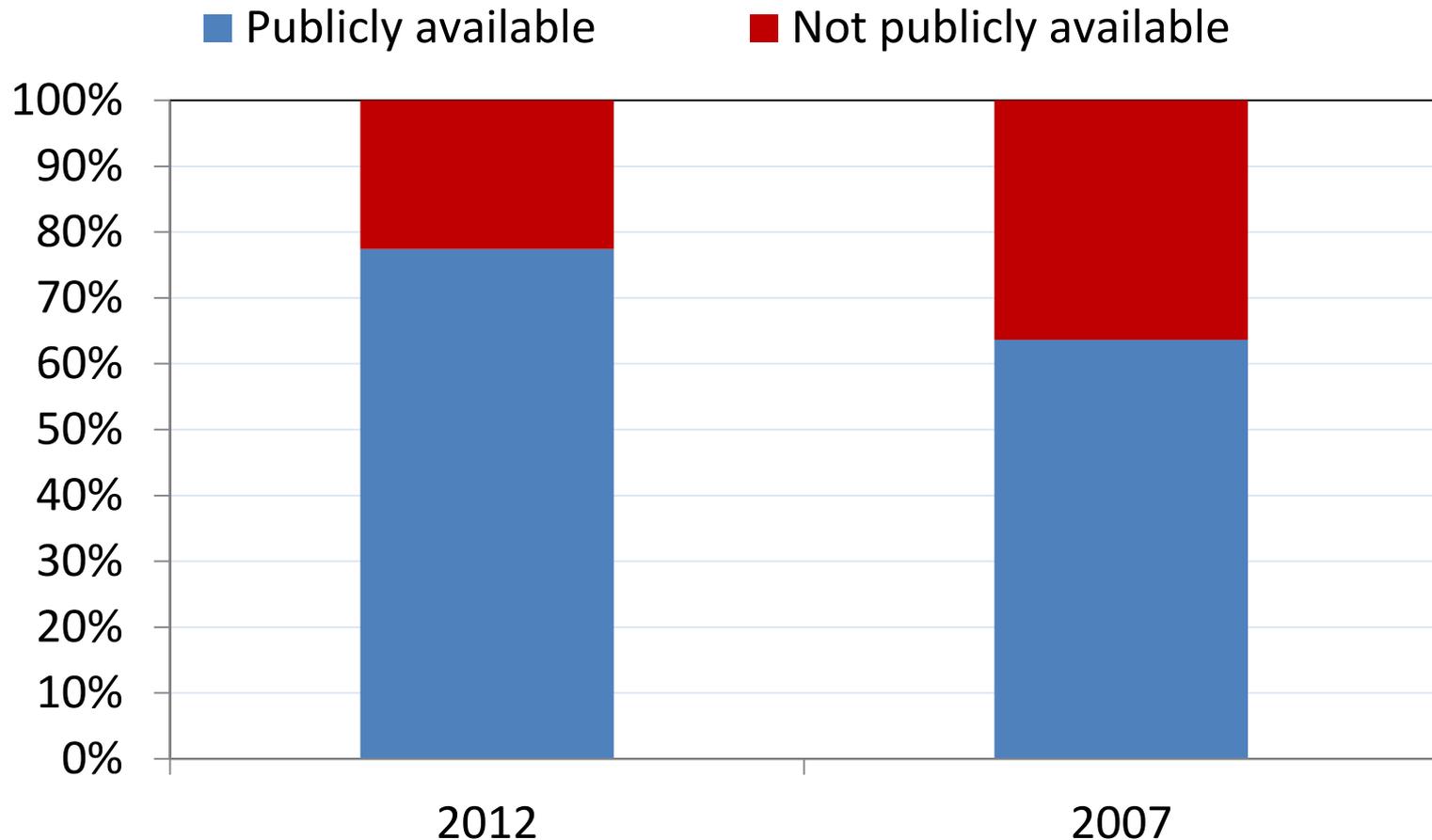
# Budget Transparency

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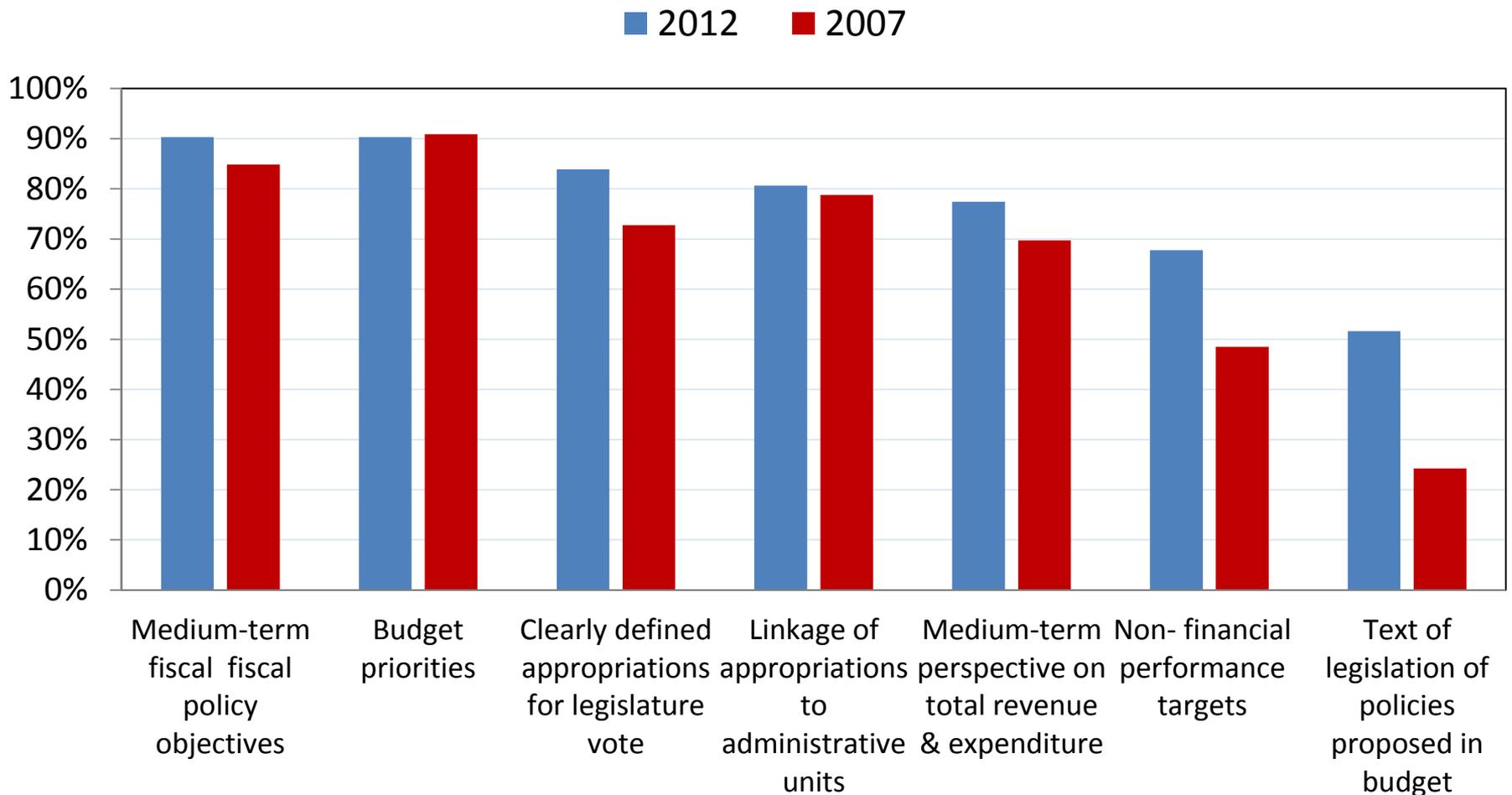
- Budget transparency – openness about policy intentions, formulation and implementation
- *OECD Best Practices for Budget Transparency*
  - Principal budget reports that governments should produce and their general content
  - Specific disclosure to be contained in these reports
  - Practices for ensuring the quality, integrity and usefulness of the reports, including an effective role for the legislature and civil society

# 3/4 publish the macroeconomic assumptions and the methodology used to establish them

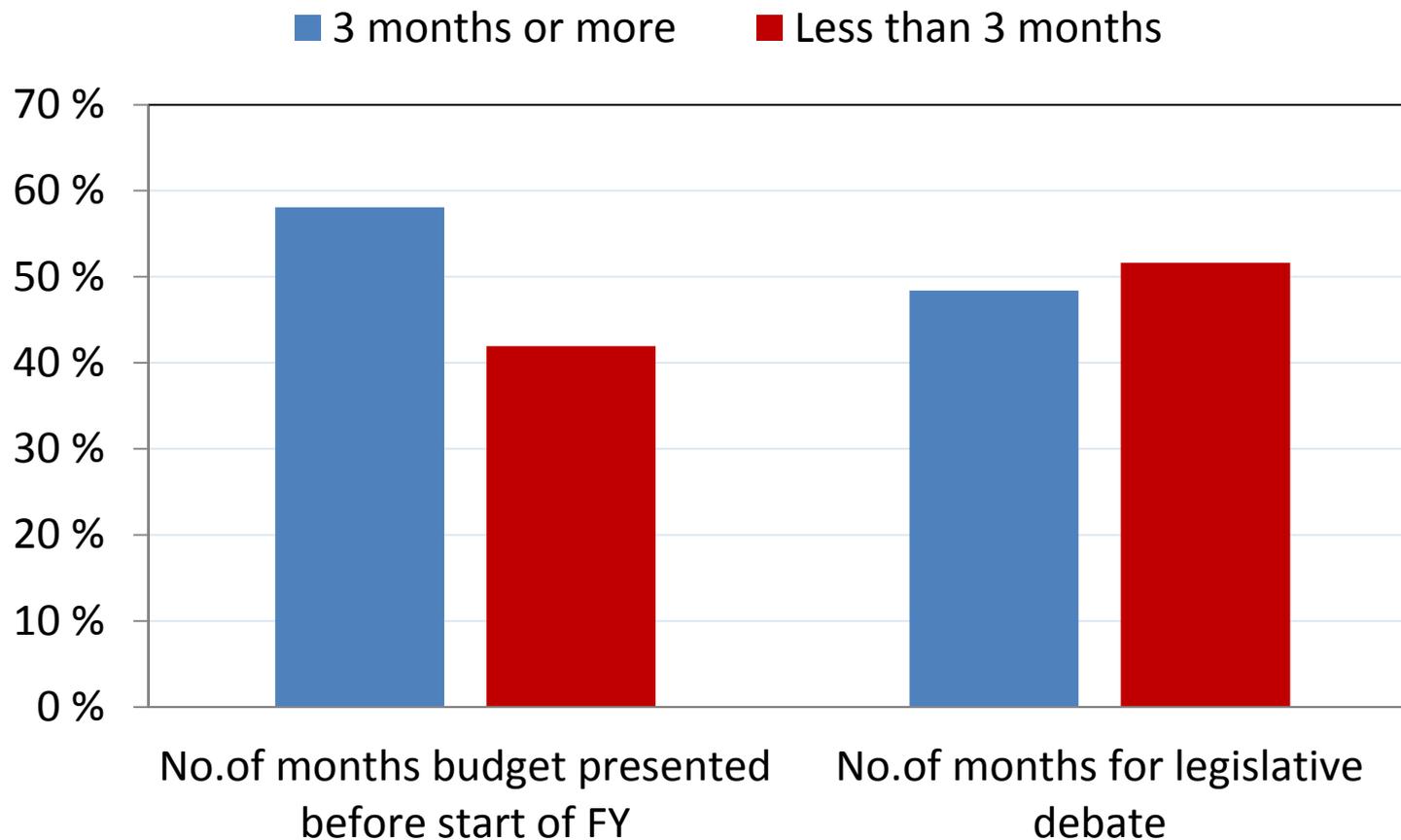
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# Elements disclosed in the budget

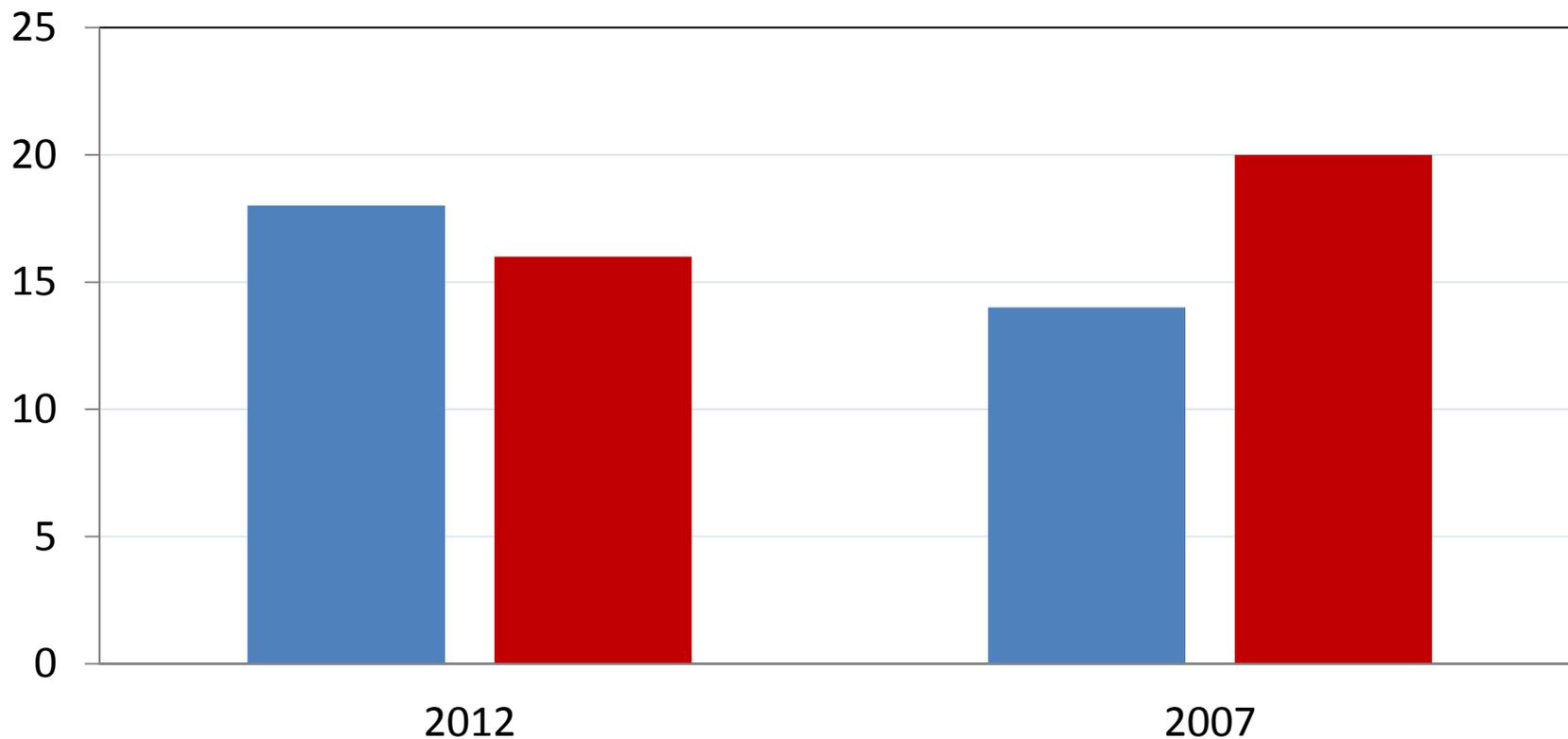


# Time for legislative budget debate



# Number of specialised legislative budget research units has more than doubled

- Specialised budget research office exists
- No specialised budget research office exists



# More countries have established or are establishing independent fiscal institutions

Fig. 8.13 Countries with independent fiscal institutions

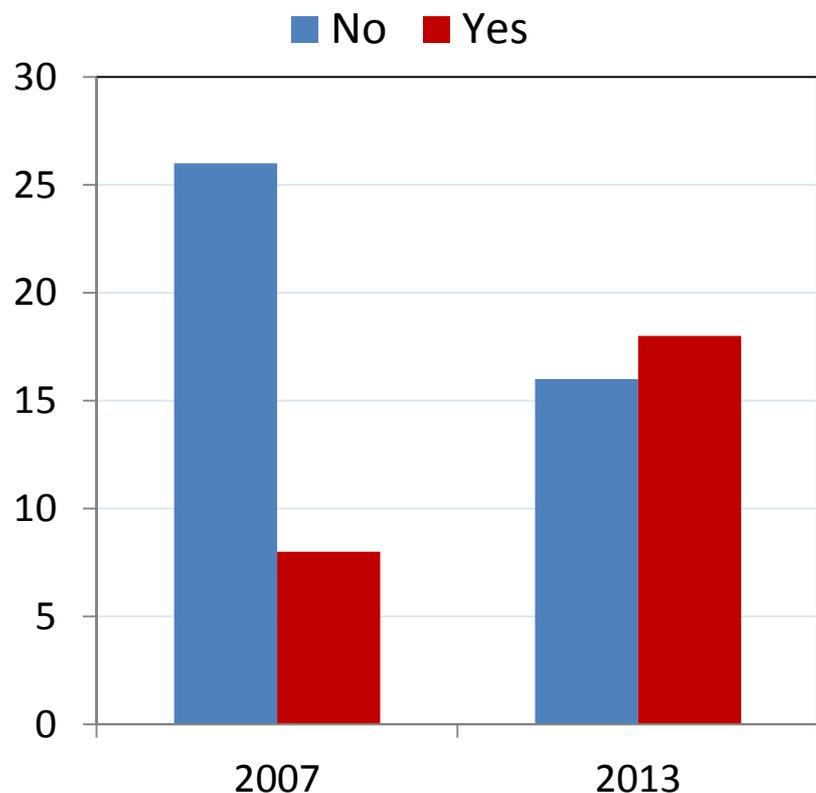
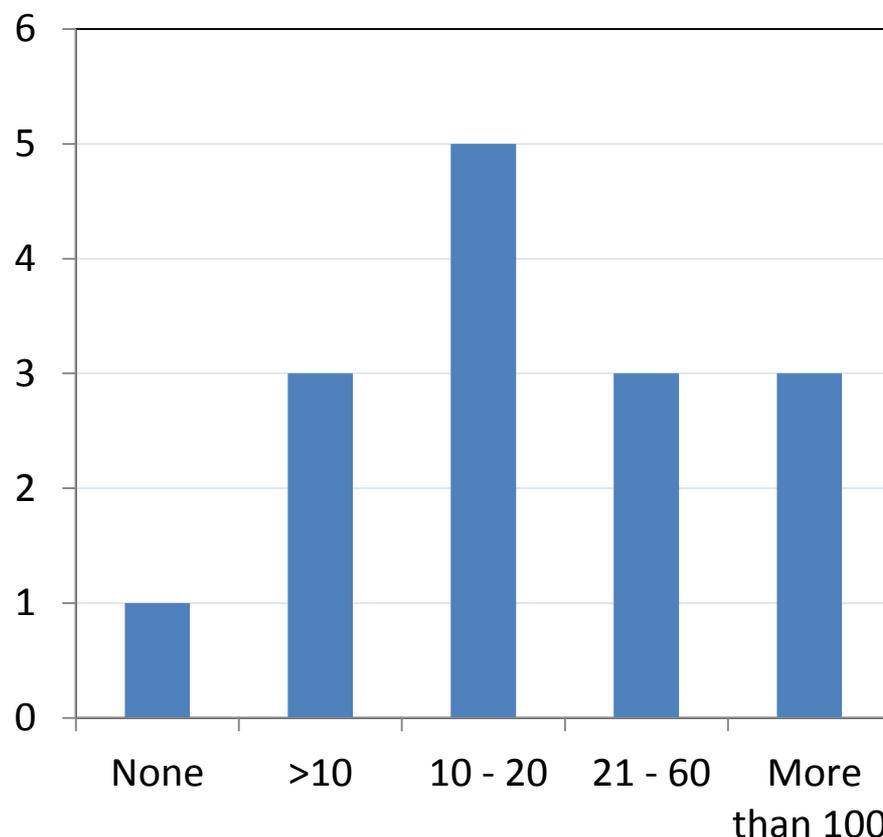


Fig. 8.14 Independent fiscal institutions - number of staff



# Country examples – Transparency

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- **Australia, Mexico, New Zealand and UK** present data on fiscal risks and contingent liabilities
- **Ireland, Portugal and Slovak Republic** established independent fiscal institutions with a role in commenting on fiscal data

# Survey Results and Implications

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# Top Down Budgeting and MTEFs

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- Executive first determines aggregate targets given medium-term fiscal objectives and prevailing economic conditions
- Within this aggregate, sectoral ceilings are set reflecting existing commitments, political priorities in general and key new policy initiatives - the detailed allocation decisions are typically delegated to individual line ministries
- Give government organisations greater flexibility and autonomy to achieve their objectives efficiently and effectively
- Increasingly relevant in a context where the multi-annual character and implications of certain policies need to be more clearly presented

# Budget offices are mostly located in MoF and headed by a civil servant

Fig. 5.1 Location of CBA (Q1)

- Ministry of Finance/Economy
- CBA is split
- Other central government institution

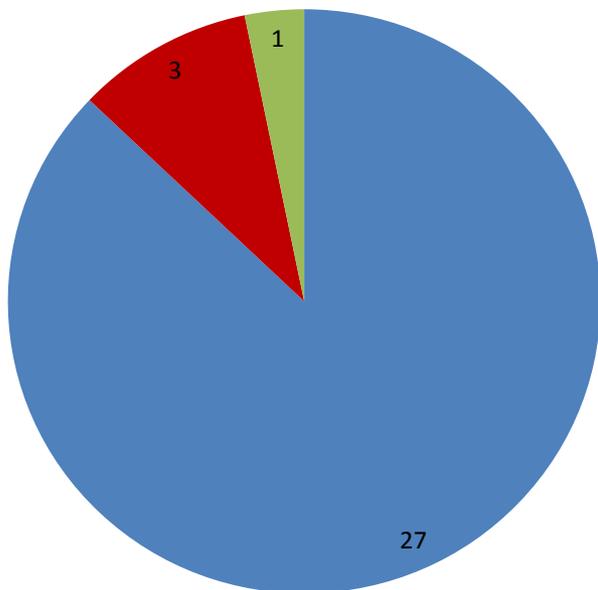
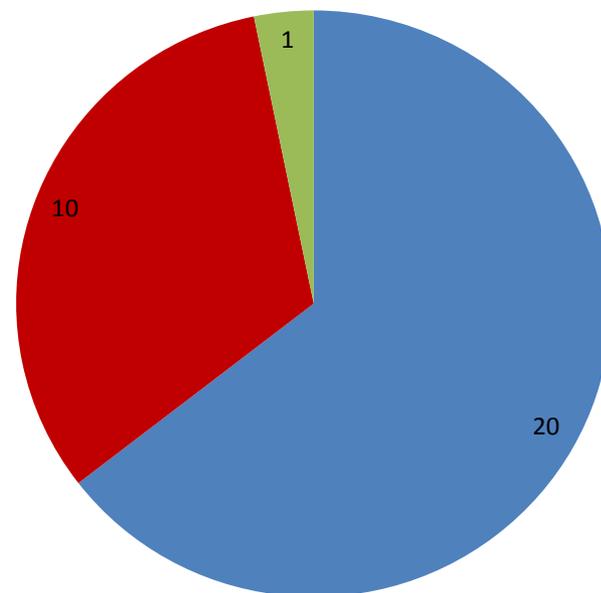


Fig. 5.2 Head of CBA (Q2)

- Senior civil servant
- Political appointee
- Other



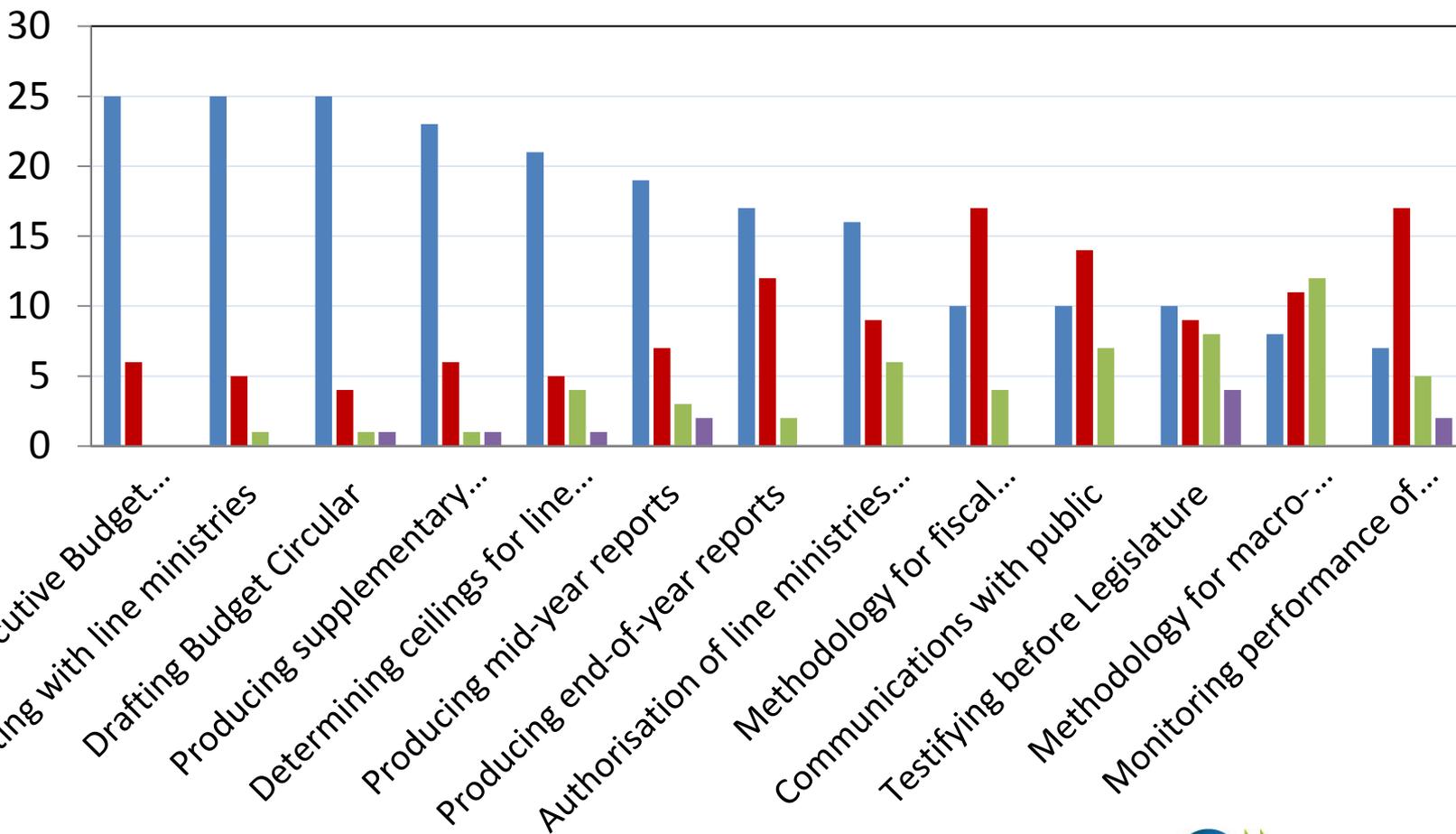
# Responsibility of Budget offices

■ Sole responsibility of CBA

■ Shared responsibility CBA/ other

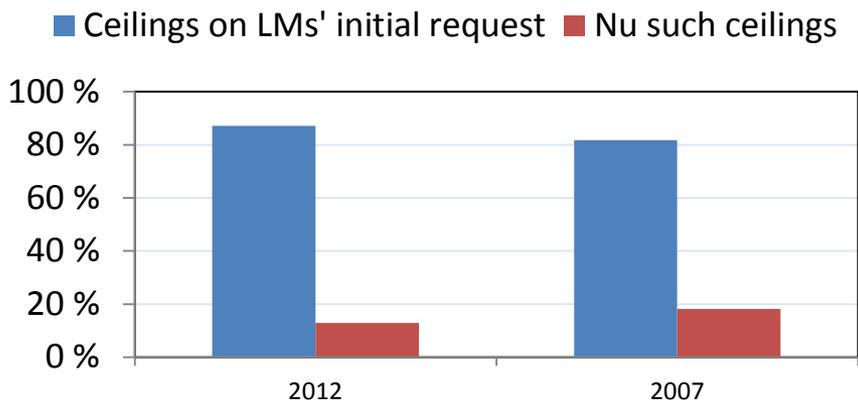
■ Not a responsibility of CBA

■ Not applicable

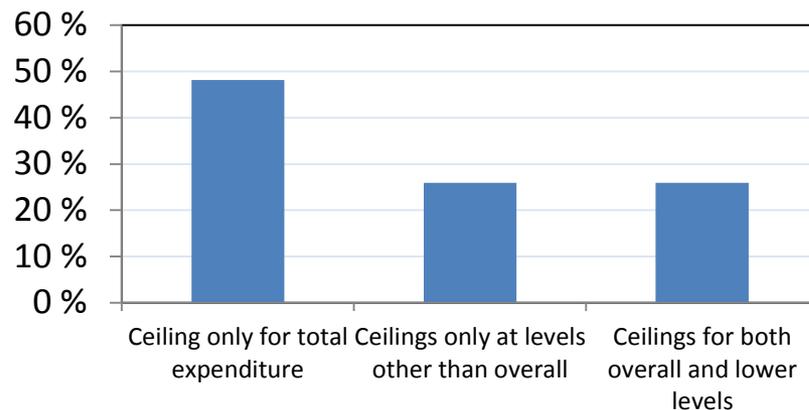


# A small rise in use of ceilings on line ministries' initial budget request

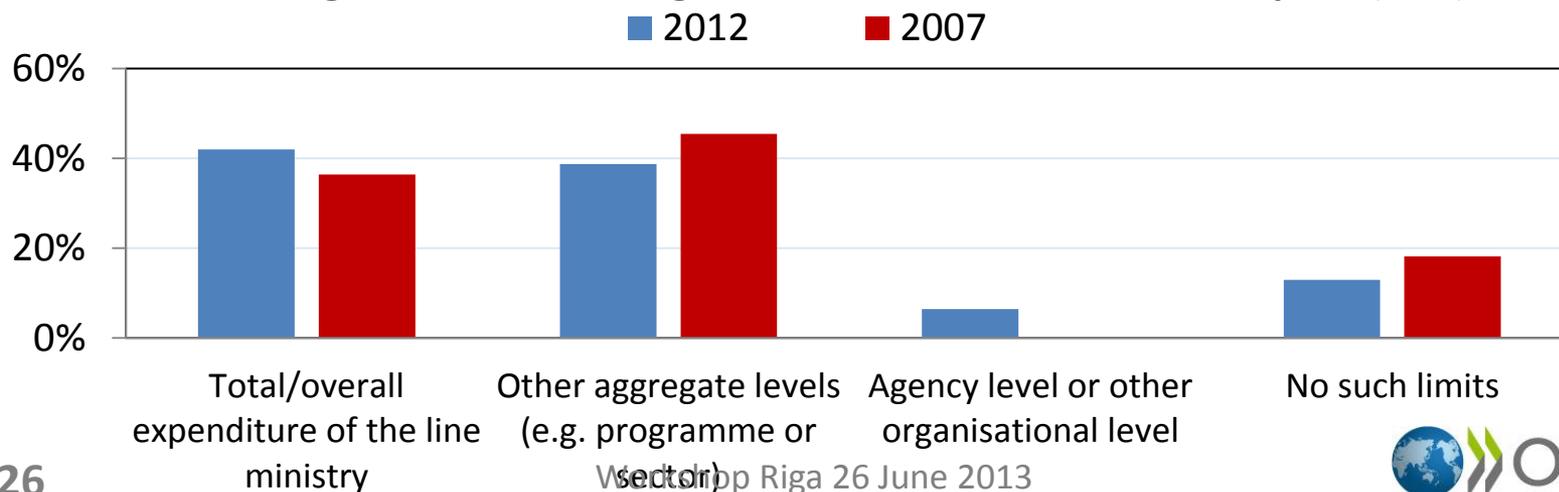
**Fig. Percentage of OECD countries with ceilings on LMs' initial budget request**



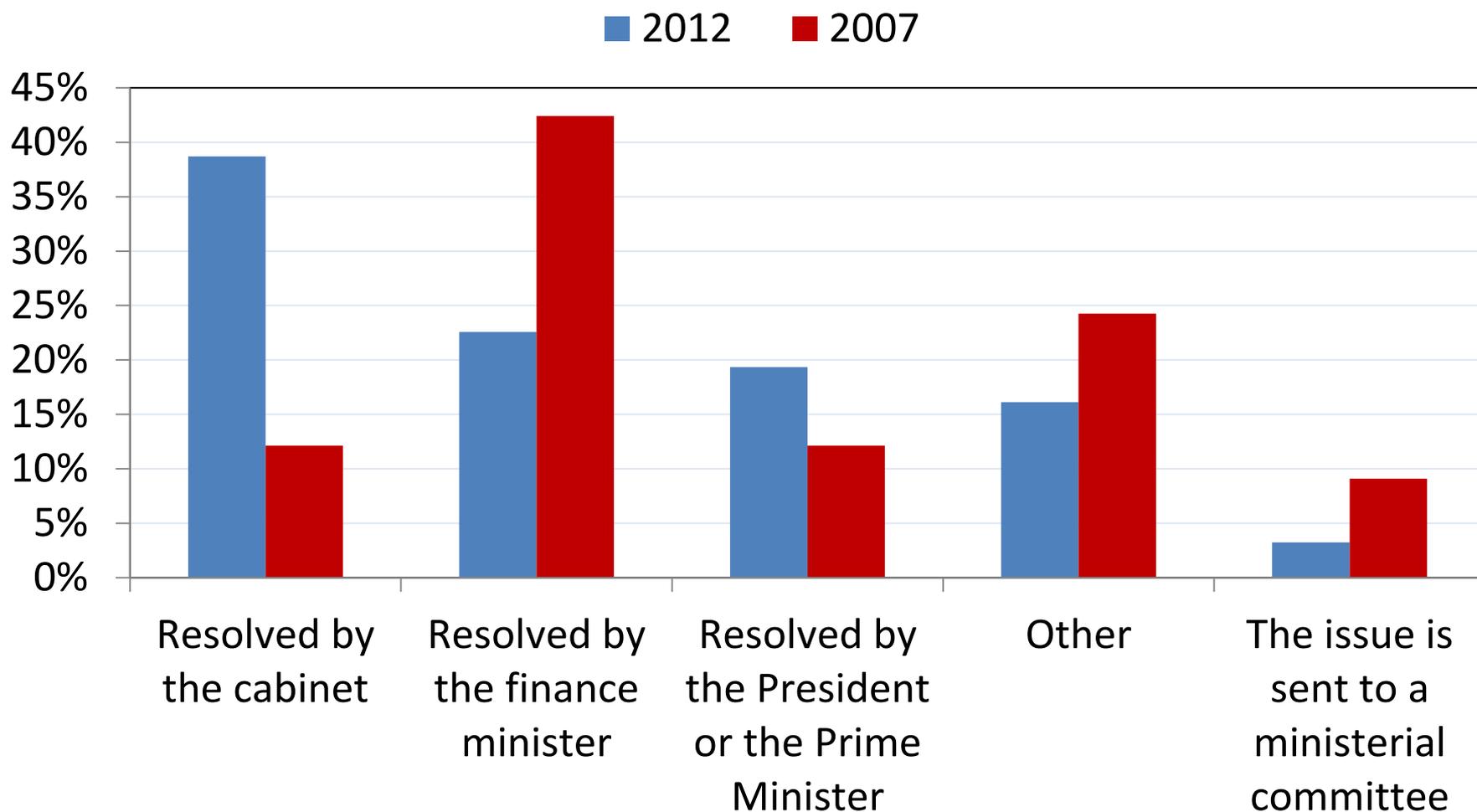
**Fig. Level of ceilings (% of countries with such ceilings)**



**Fig. 5.5 Level of ceilings on the line ministries' initial request (Q31)**



# A more collective approach to resolution of budget disputes



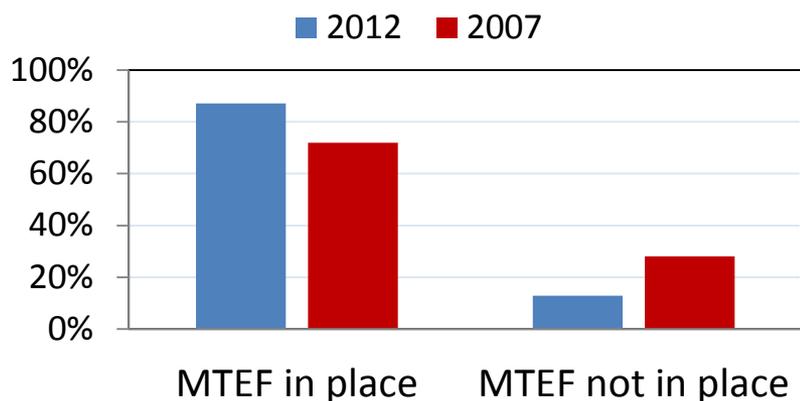
# Country Examples – Top Down Budgeting

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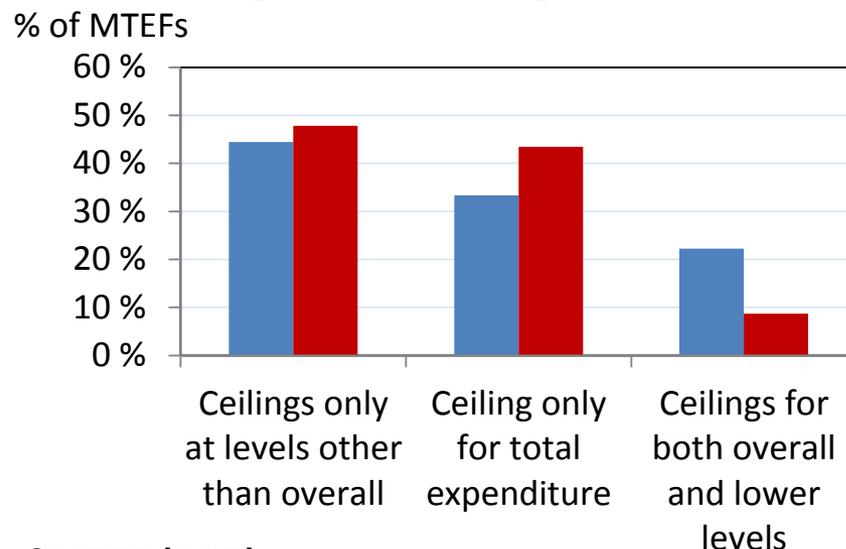
- **Estonia:** The government has introduced changes to its fiscal institutional framework leading to top-down budgeting, as the Ministry of Finance and the Prime Minister’s Office negotiate goals and indicators with ministries
- **Germany:** As of 2011, the federal budget is drawn up using a top-down approach, giving the Federal Ministry of Finance the central role in preparing the draft annual budget.
- **Ireland:** A 4-person “Economic Council” of government – PM, Deputy PM, Finance and Expenditure Ministers – prepare core budget strategy and resolve inter-party priorities

# More countries use an MTEF with sub-aggregate ceilings

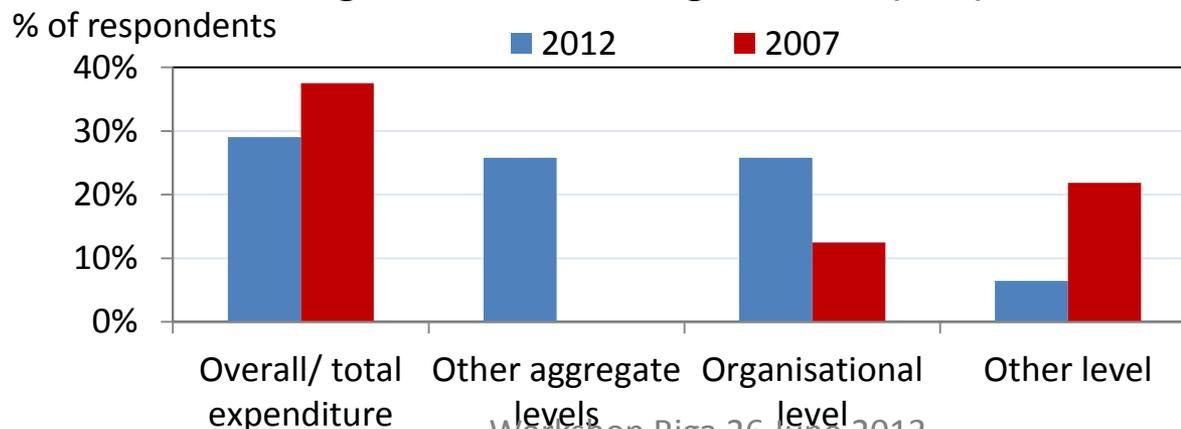
**Fig. 3.1 Percentage of OECD countries with MTEF in place (Q25)**



**Fig. Level of ceilings in MTEF**



**Fig. 3.6 Level of ceilings of MTEF (Q27)**



# MTEF – Legal Basis and Monitoring

Fig. 3.2 Legal basis for MTEF (Q26)

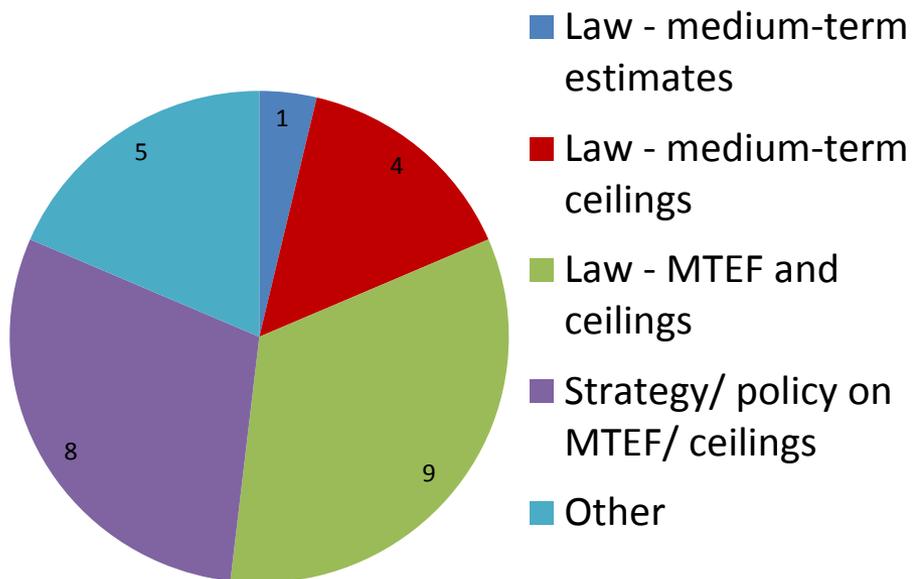
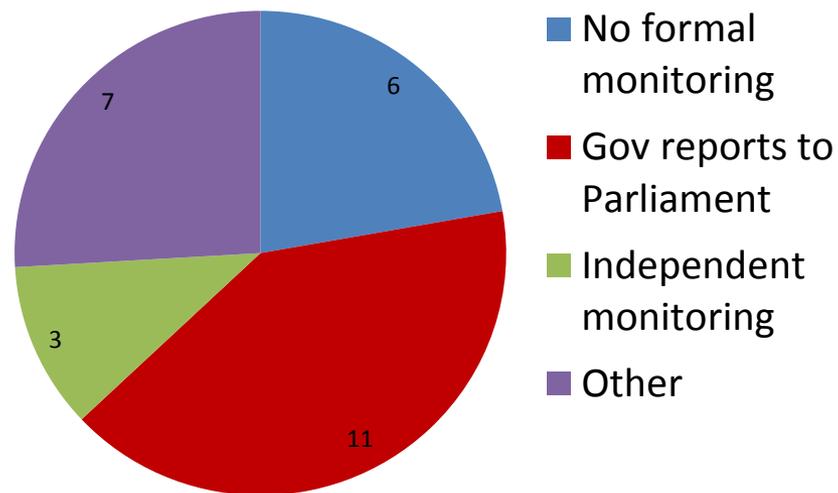


Fig. 3.5 Monitoring of MTEF (Q30)



# Ceilings often cover 3-4 years but are revised annually

Fig. 3.7 Length of ceilings (Q27b)

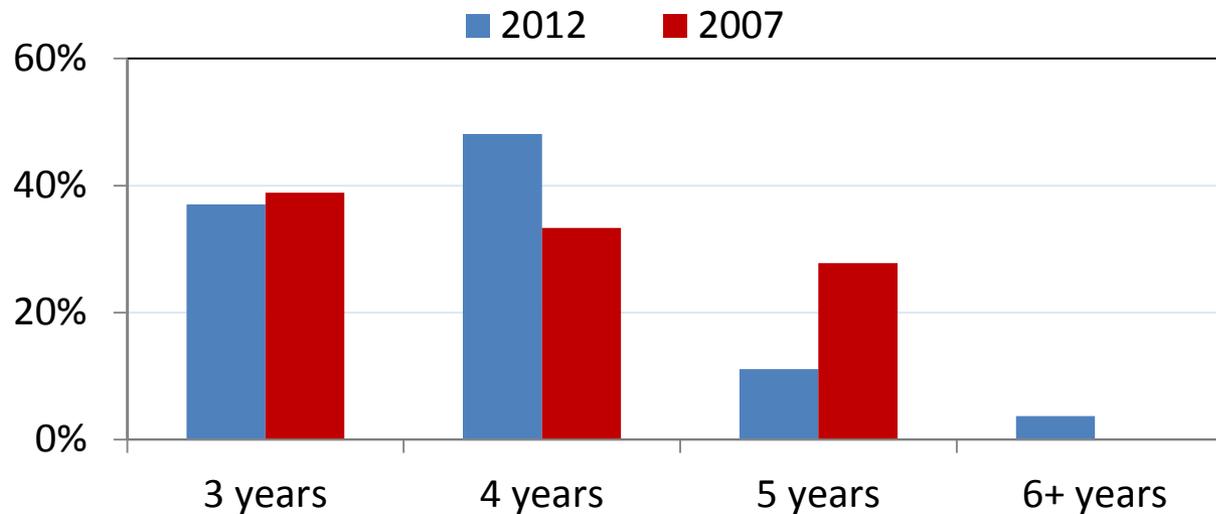
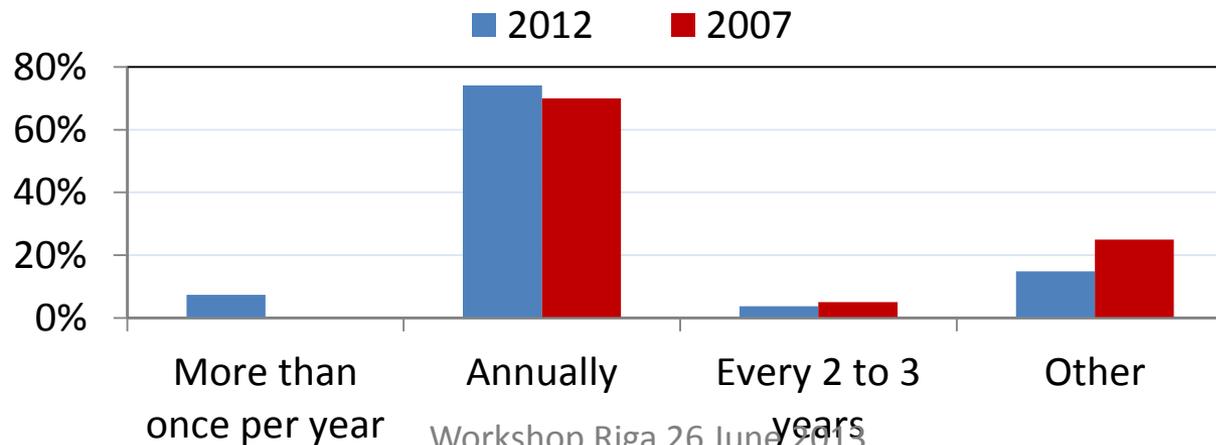
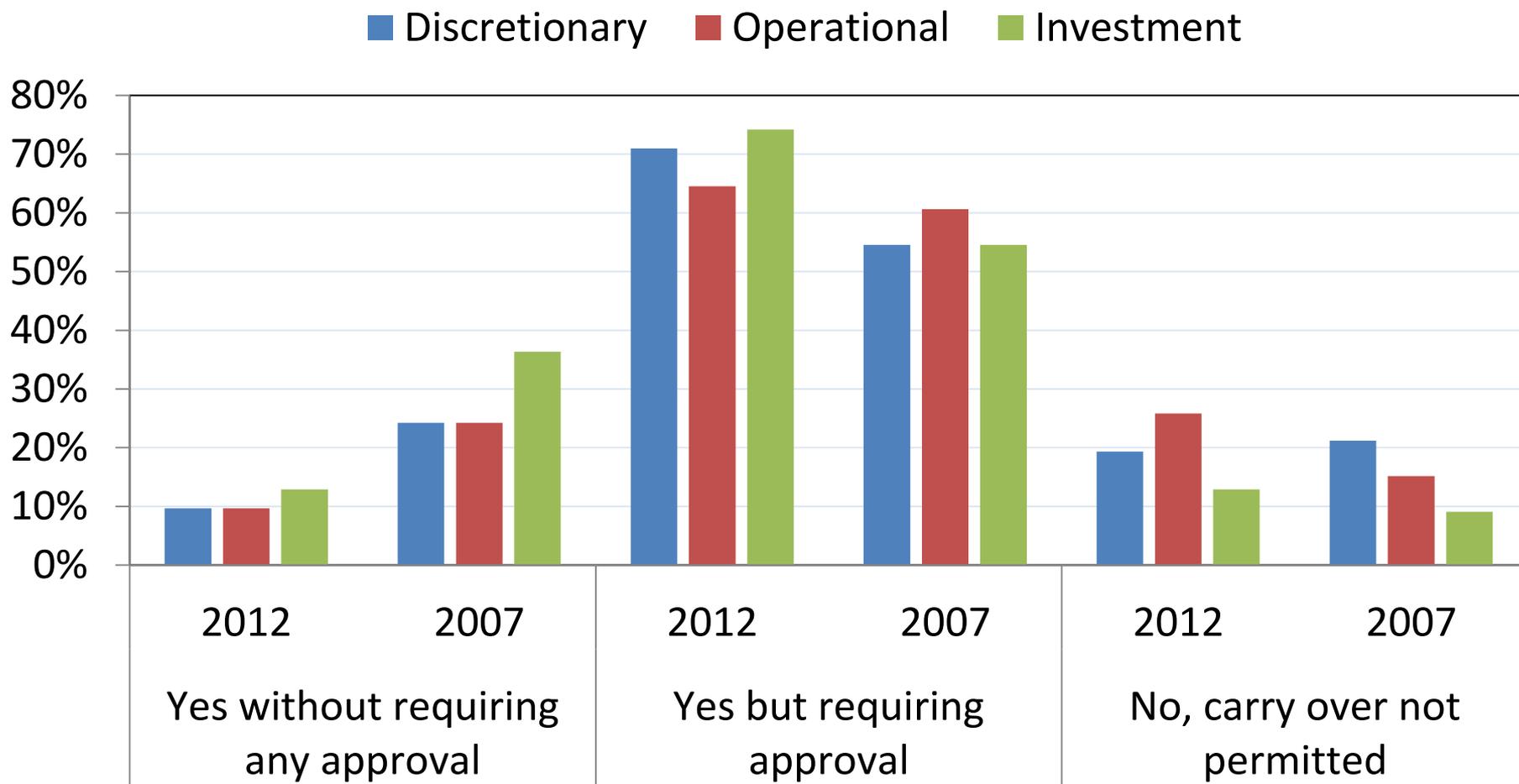


Fig. 3.8 Frequency of revision of ceilings (Q27b)



# More countries do not permit carry-overs and more require pre-approval



# Country Examples – MTEF

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- In **the Netherlands**, expenditures that are sensitive to cyclical trends (unemployment benefits, social assistance benefits, and movements in terms of trade) have again been placed within the expenditure ceiling framework. Also, interest payments have again been included under the expenditure ceilings.
- **New Zealand** required four-year budget plans from departments. Approval was dependent on the ability of departments to manage within fixed or reduced baselines.
- **UK** sets nominal expenditure totals for line ministries for the full four-year spending period. Non-departmental and exceptionally volatile spending remains controlled within the annually managed expenditure budget (including automatic stabilisers and central government debt interest payments).

# Survey Results and Implications

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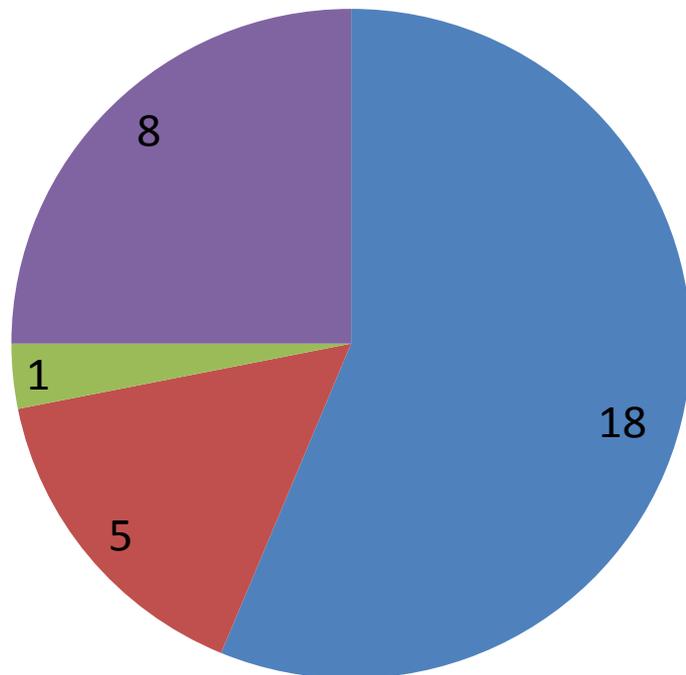
# Performance Budgeting

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- **Increasing focus on the results achieved with the appropriations...**
- **...But no settled consensus on the optimal way of using performance information within budgeting**
- **Performance frameworks are generally decentralised, flexible and not linked with allocation decisions.**

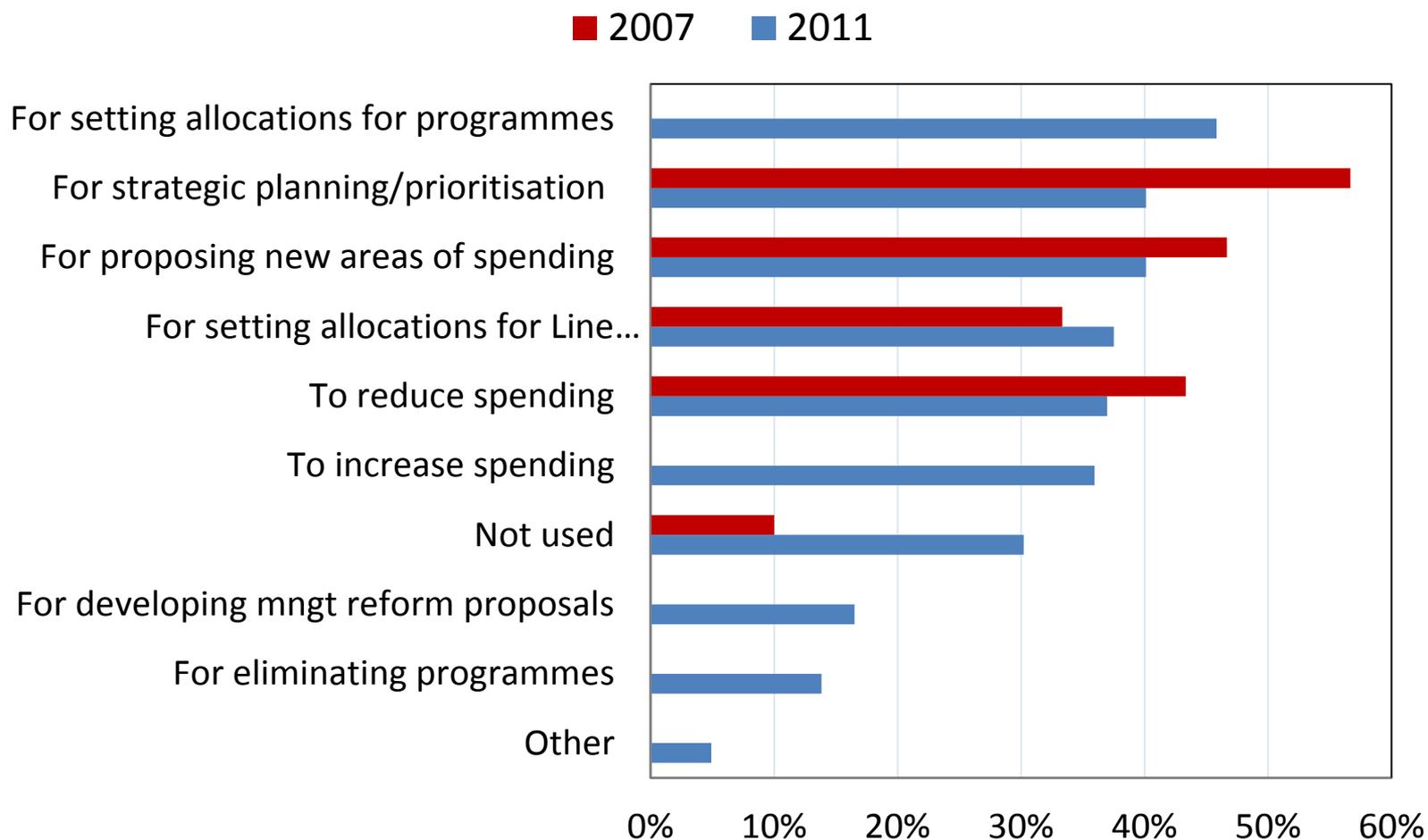
# Most OECD countries have a standard performance budgeting framework

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- Yes for both line ministries and agencies
- Yes, but only for line ministries
- Yes, but optional for line ministries and agencies
- No, line ministries/agencies have their own

# In negotiations between line ministries and budget offices, performance information is generally used less for strategic planning and to a growing extent not used at all



# Confined reactions to non-compliance of targets



# Country examples – Performance budgeting

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- **USA** and **UK** have moved away from their high profile performance system
- **Netherlands** and **Sweden** have stepped down the detail and nature of performance information in the budget process
- **Austria** and **Ireland** have introduced performance budgeting reforms with a focused set of performance data integrated with strategic budgetary objectives
- **Portugal** and **Slovenia** have introduced programme budgeting

# Summary

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- OECD countries have tested their budgetary framework during the great recession
  - Some abandoned elements of their practices and procedures during the crisis
  - Most have reformed their budgetary institutional framework
- More OECD countries use an increasing number of fiscal rules
- Transparency has increased to some degree, the legislature has increased analytical capacity and more countries have established IFIs
- More countries apply top down techniques such as establishing ceilings for line ministries' initial budget request and more collective resolution of disputes
- More OECD countries use a medium-term expenditure framework, most with more detailed ceilings than total expenditure
- Performance budgeting – different trends are evolving

# For Further Information

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