

BUDGET

REFORM

Putting tax money to effective use for citizens.

Workshop 2b: How to construct base-line estimates? - Austrian Case

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Framework: Medium-Term Expenditure Framework

- **MTEF law** sets expenditure ceilings
 - for 4 years (n+4 is added annually)
 - for 5 headings (cover several ministries) and
 - for about 30 budget chapters (following the organization of ministries)

- **2 kinds of ceilings:**
 - nominally fixed for execution: ~75% of expenditure
 - Variable in budget execution: according to predefined indicators for expenditure areas with high sensitivity to the business cycle, directly linked to tax receipts, refunded by EU and payments from arising from contingent liabilities

- **alignment to base-line estimates**

Base-line estimate in Austria

- Estimates made by the Federal Ministry of Finance
- Based on economic forecasts of an independent research institute (Austrian Institute for Economic Research – WIFO: www.wifo.ac.at)
- On the level of budget chapters (not for line items or programmes)
- used as background information for policy-making and as basis for planning only

Base-line estimate in Austria

- assumption of constant and existing legislation and/or policies (including formal cabinet decisions)
- Forecatings horizon: current year + 4 years (cycle of the MTEF)
- How often?
 - normally once a year
 - for internal purposes periodically, if useful
 - in case of substantial macroeconomic changes

Estimates in more detail

Revenue projections:

- For all individual taxes on the basis of the WIFO macroeconomic forecast
- Other revenues: for each budget chapter

Expenditures estimates:

- by budget chapters (e.g. education, social welfare, defence, security)
- wages and salaries (number of civil servants, wage increases)

Estimates in more detail

Macro-economic factors:

- annual trends in GDP
- inflation
- unemployment rate

Areas of specific interest:

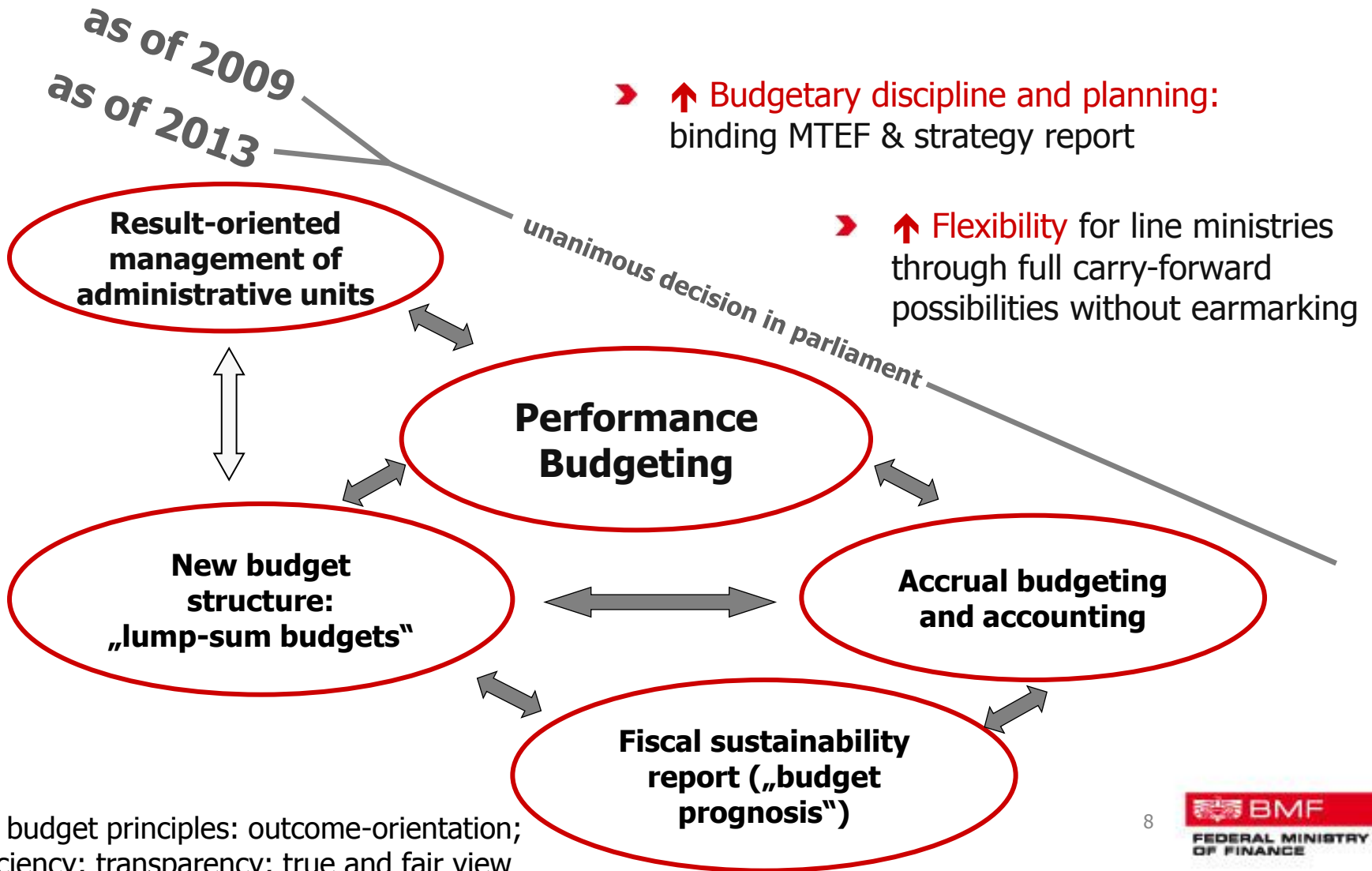
- tax revenues
- interest expenditures
- pensions (number of senior citizens, business cycle)
- family benefits (demographic development)
- education (demographic development)

→ no explicit distinction between mandatory and discretionary spending in base line estimates

From Base-line estimates to MTEF – top down approach

- step one: base-line estimates
- step two: definition of budget goals per year (according to EU-standards)
- step three: “spending cuts target” (difference of step one + two) defined
- step four: how to allocate consolidation to each ministry: decision on
 - which government level contributes how much?
 - relation of expenditure cuts and increases in revenues?
 - expenditure cuts: across the board or targeted cuts?
- step five: each ministry receives targets for expenditures (maximum) and revenue (minimum) per year of MTEF
 - either decision is made at top government level and no more negotiations with line ministries
 - or very restrictive negotiations with line ministries
- step six: draft MTEF decided in government and in parliament

Austrian Federal Budget Reform - Overview



Thank you for your attention!

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