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

- Result-oriented management of administrative units
- Performance Budgeting
- New budget structure: "lump-sum budgets"
- Flexibility for line ministries through full carry-forward possibilities without earmarking
- Accrual budgeting and accounting
- Fiscal sustainability report ("budget prognosis")

Budgetary discipline and planning: binding MTEF & strategy report

New budget principles: outcome-orientation; efficiency; transparency; true and fair view

as of 2009

unanimous decision in parliament

as of 2013
Thank you for your attention!

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