



Budgeting in Moldova

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Economic Background

Table 1. Growth of real GDP

Per cent of change on previous year

	2005	2006	2007	2008	2009	2010	2011
EU 15 (older)	1.8	3.0	2.7	0.5	-4.3	0.9	1.6
EU 10/12 (accession)	5.4	6.2	5.7	3.3	-3.0	2.2	2.8
Moldova	7.5	3.0	3.0	7.8	6.5	2.5	3.6

Figure 1. Expenditures, Revenues and Balance of General Government

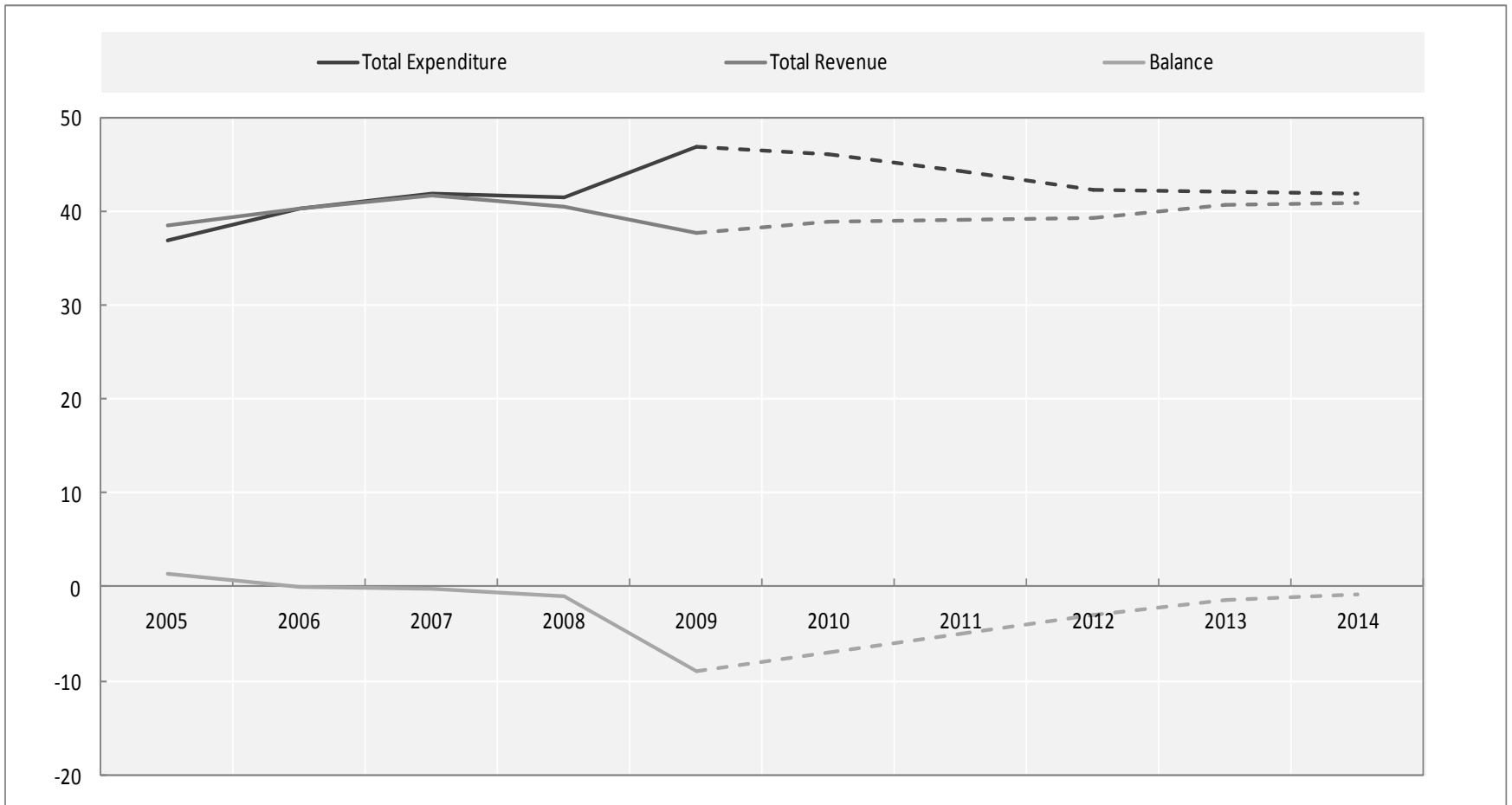
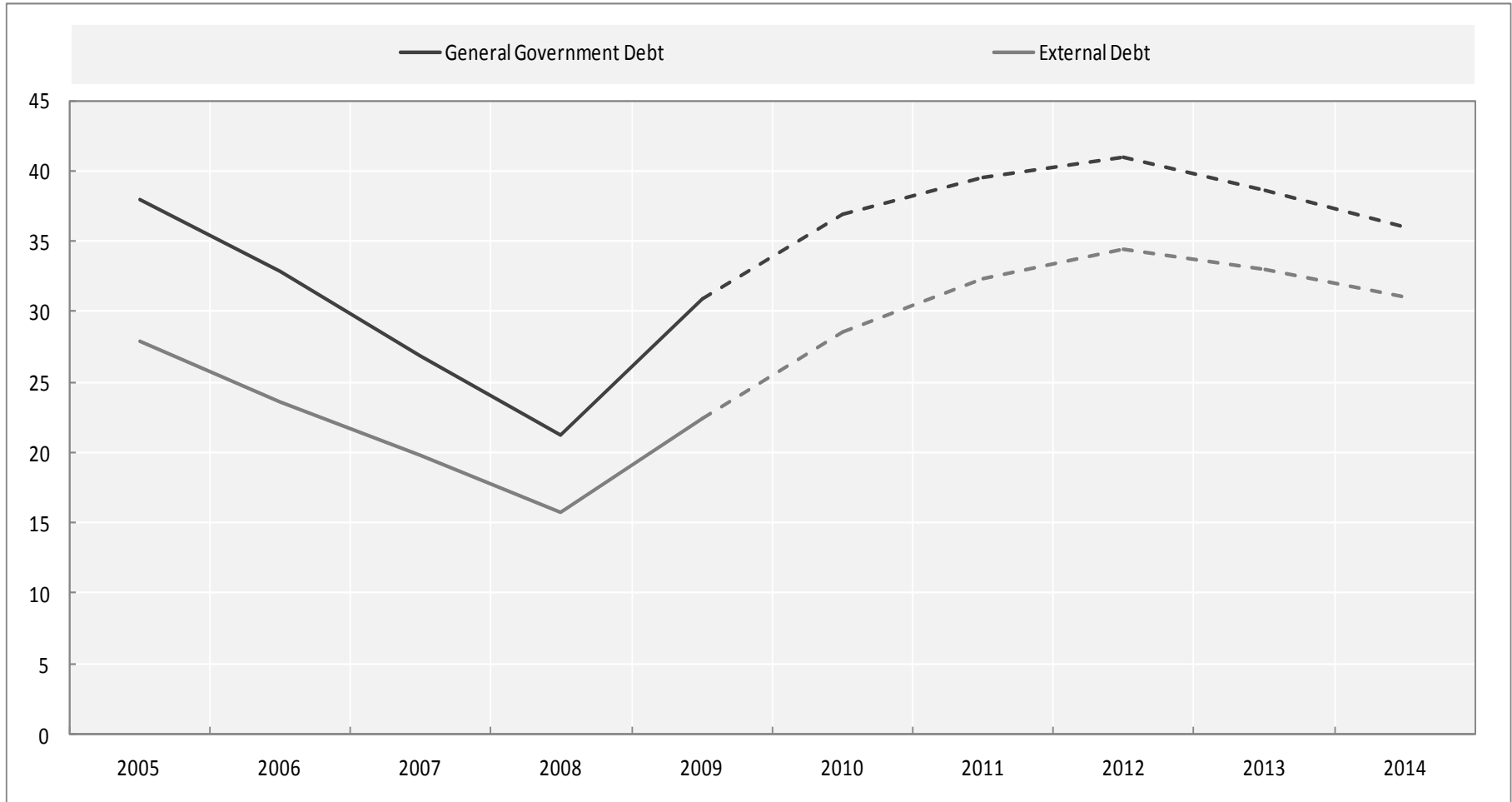


Figure 2. General Government Public Debt



Requirements for budget classification

- **a limited number of line items**
- **based on CPA's (no line items cross cutting CPA's)**
- **within each CPA a separate line item for current operational expenditure**
- **broken down by expenditure groups or programmes**
- **multi-annual estimates on the basis of current policy should be provided in the same classification**

Table 3. Stylized budget classification

	Expenditure				Source of financing
	t (budget year)	t+1 (first out-year)	t+ 2 (second out-year)	t+3 (third out-year)	
Ministry I					
Current operational expenditure core ministry					
Current operational expenditure agency 1					
Current operational expenditure agency 2					
Etc.					
Programme A					
Subprogramme A1					
Subprogramme A2					
Programme B					
Etc.					
Ministry II					
Current operational expenditure core ministry					
Current operational expenditure agency 1					
Current operational expenditure agency 2					
Etc.					
Programme A					
Subprogramme A1					
Subprogramme A2					
Programme B					
Etc.					
Ministry III					
Etc.					

Requirements for Medium Term Expenditure Framework

- **Ceilings for budget sectors and ministries for upcoming budget and two or three out-years**
- **To be decided at the beginning of budget preparations (= top down budgeting)**
- **Based on:**
 - a. **macro-economic assumptions and medium term deficit target of fiscal rule**
 - b. **base line estimates at line item level**
 - c. **Information about new spending initiatives**
- **Assumptions about relationship between sum of base line estimates and ceilings (= savings or new spending initiatives) should be explained.**

Budgetary discipline

- **Compensation of all overspending by windfalls or cuts on other line items or by room under the ceiling;**
- **Not only relevant during budget execution but also during budget preparation;**
- **Necessary pre-condition: regular updating of base line estimates.**

Budgetary discipline

Problems in Moldova during budget preparation:

- no multi-annual ceilings (methodological guidance differs from MTEF);
- no base line estimates at line item level.

This leads to focus on next year and excludes from the budget discussion all medium and long term consequences of initiatives (both spending and saving).

Problems in Moldova during budget execution:

- little flexibility, overspending with compensation is difficult
- carry-over is difficult

Capacity of line ministries

Roles of financial directorates of line ministries:

- **Running the intra-ministerial budget preparation process and advising the line minister on MTEF and budget submissions;**
- **Updating base line estimates for existing policies (3-4 times a year);**
- **Making base line estimates for new policy initiatives, both spending and saving initiatives;**
- **Responsibility for budgetary discipline during budget preparation and budget execution (“every Minister his own Minister of Finance”);**
- **Facilitating reallocation and compensation during both budget preparation and budget execution;**
- **Cost analysis of programmes and executive agencies;**
- **Liaising with Ministry of Finance.**