Programme for Emerging Asian Economies

KEY ISSUES FOR DISCUSSION

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This document suggests a number of Key Issues for discussion during each of the sessions.
ISSUES FOR DISCUSSION

Contemporary Budgeting Reform

1. Economic performance and political commitment are the key factors determining fiscal performance. Institutional arrangements for budgeting play a major role as well. There are many examples of countries that have had a combination of economic growth and a degree of political commitment to fiscal discipline but have not had successful fiscal outcomes. If we look at the OECD Member countries who are experiencing budgetary surpluses, these are generally the same countries that have been the most active in reforming and modernising their budget process. The ones that started the earliest were the first to experience surpluses, the ones that did the most comprehensive reforms are the ones that have the most sustainable surpluses.

2. The OECD has identified seven key institutional features necessary to effectively control public expenditure based on Member countries’ experience. They are:
   ♦ medium-term budget frameworks;
   ♦ prudent economic assumptions;
   ♦ top-down budgeting techniques;
   ♦ budget transparency;
   ♦ relaxing central input controls;
   ♦ focus on results; and
   ♦ modern financial management practices

   How are the economic assumption for the budget formulated? Has the economy tended to perform better or worse than assumed? Is there any review of the government’s assumptions by an independent body? Do the assumptions contain sensitivity analysis?

   What are the respective roles of the central budget office and line (spending) ministries in formulating the budget? What flexibility does the central budget office allow line (spending) ministries to decide on individual appropriations within a given aggregate ceiling for the ministry as a whole?

   What efforts have been made to promote budget transparency? Can Delegates report on any concrete results of such initiatives?

   A number of OECD Member countries are now relaxing central input controls and replacing them with a greater focus on accountability for results? How do Delegates view such developments from their national settings? What pre-requisites need to be in place before such reforms can be implemented.
How do Delegates assess the appropriateness of adopting accruals? If applied, should it be limited to financial reporting (accounting), or should it be applied to the budget as well?

What other institutional features are important to successful fiscal outcomes?

Delegates may wish to defer discussion of medium-term budget frameworks to the next session.

Maintaining Fiscal Discipline: Fiscal Rules, Medium-Term Expenditure Frameworks and Off-Budget Activities

3. A variety of fiscal rules have been introduced during the 1990s. This is best exemplified by the single common currency for Europe, the Euro, and the self-imposed Maastricht criteria that countries had to fulfil in order to qualify for it -- maximum annual deficits of 3% of GDP and a maximum level of outstanding debt of 60% of GDP. It should also be borne in mind that the European Union’s Growth and Stability Pact calls for Member countries to aim for a budgetary balance over the business cycle and that many individual European countries have a more challenging fiscal target in their national settings. The Budget Enforcement Act in the US contained nominal caps on discretionary expenditures and special offsetting procedures for mandatory expenditures. Switzerland recently enacted a constitutional amendment mandating a balanced budget. Australia and New Zealand have experiences with their Charter of Budget Honesty Act and Fiscal Responsibility Act, respectively, which place a very strong onus on transparency in fiscal policy -- setting and reporting implementation against it. Medium-term expenditure frameworks generally accompany such measures.

Under what circumstances do fiscal rules work and not work? What are key elements in the design and enforcement of effective fiscal rules?

What are the specific targets that should be covered -- level of surplus/deficit, level of expenditure, level of debt, other?

How can fiscal rules work over the entire business cycle -- i.e. accumulate savings during the upswing and not breaking down when budgets come under pressure during the downswing?

How can medium-term budget frameworks best support such rules? How can “escape routes” from the rules through off-budget measures be avoided?

Role of the Legislature in the Budget Process

4. Two contemporary developments are buffeting legislative work on the budget. One is the drive to discipline public finance by constraining the fiscal aggregates; the other is the effort to enlarge the legislature’s role in revenue and spending policy. Whether these trends turn out to be complementary or contradictory will shape the budgetary role of national legislatures in the years ahead. One scenario is for the legislature to reinforce fiscal discipline by taking responsibility for the budget’s totals; another is for it to undermine discipline by bombarding the budget submitted by the government with legislative amendments that trim revenues or boost expenditures.

How do Delegates characterise the role of the legislature in the budget process? Is the relationship between the government and the legislature based more on co-operation, or more on rivalry?
Does the legislature take responsibility for aggregate fiscal discipline? For example, does it vote on the aggregate levels of expenditures before considering individual amendments? Is there a division of labour between a budget/appropriations committee that deals with the aggregates and sectoral committees that deal with allocations within sectors?

Are there any restrictions on the legislature’s power to modify the budget proposal? Irrespective of the formal powers, does the legislature actually exercise them? What is the level of analytical capacity in the legislature to independently assess such amendments?

How would you assess the role of the legislature in terms of promoting an understanding of the need for fiscal discipline by civil society?

Distributed Governance

5. Distributed governance refers to agencies and other autonomous government bodies that are charged with a public purpose. These bodies are growing in importance in most OECD Member countries. Examples include the original agencies’ model in Sweden and the Nordic countries, and the more recent creation of Executive Agencies in the United Kingdom. These bodies have brought many advantages in terms of operational performance. Concerns have, however, been voiced about loss of whole-of-government cohesion, and difficulties with the accountability regimes of such bodies.

How do Delegates view such bodies? What are their advantages and disadvantages? What have been the motivating factors for their creation?

What degree of “independence” from ministries do such bodies enjoy? How are they held accountable and to whom? Is there organic legislation governing their operations?

Do they generally have a board of directors associated with them? What is the role of such boards -- are they governing boards or are they advisory boards? How are these boards appointed?

What degree of managerial flexibility (for example, in terms of staff appointment) do these bodies enjoy in comparison with traditional ministries/departments?