



THE SEARCH FOR FISCAL SPACE AND THE NEW CHALLENGES TO BUDGETING

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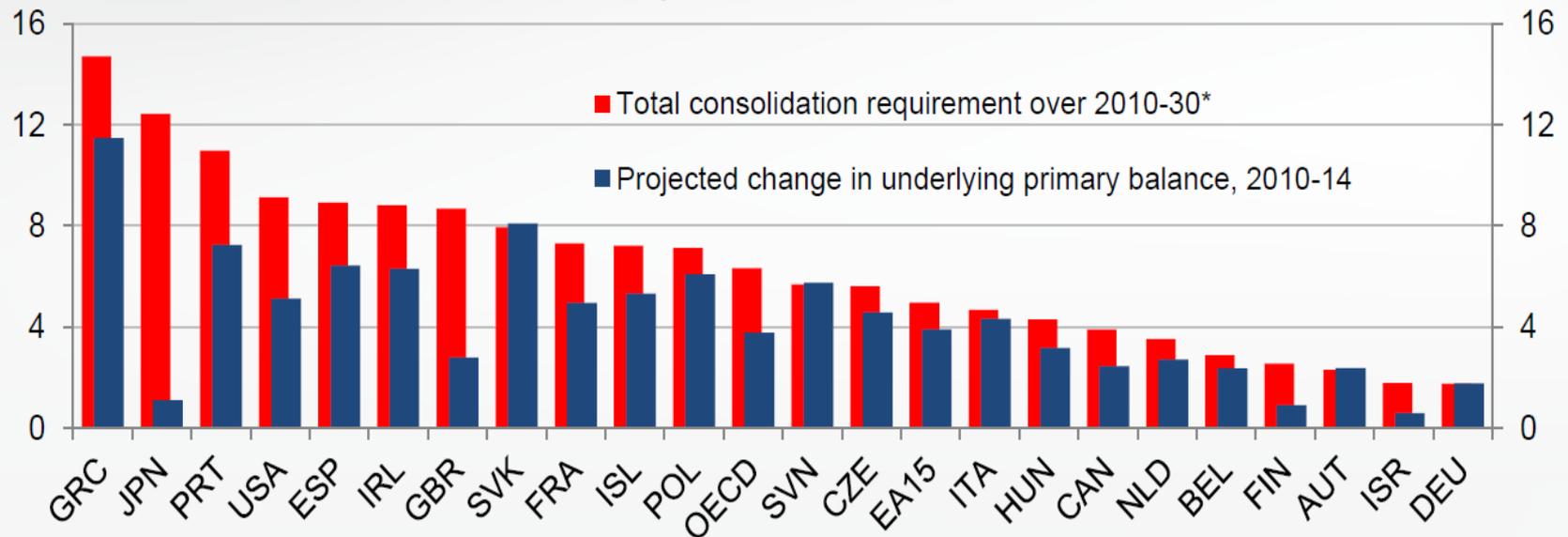
The overwhelming pressure of fiscal consolidation

- RPF 2012:
 - 25 out of 34 OECD countries were embarked in fiscal consolidation programmes
 - 2/3 of fiscal consolidation plans in expenditure cuts
 - 60/40 split between program and operational cuts
 - Half the plans already implemented
 - Yet not the end of the story



Fiscal consolidation: progress and remaining challenges

Change in underlying primary balance relative to 2010 necessary to achieve 60% debt-to-GDP ratio no later than 2030 In per cent of GDP



* Sum of the projected change in the underlying primary balance between 2010 and 2014 and the remaining requirement from 2014, defined as the difference between the primary balance in 2014 and the average primary balance between 2015 and 2030, except for those countries for which the debt target is achieved only after 2030, in which case the average is calculated up until the year that the debt target is achieved.

Source: OECD Economic Outlook 93 database, and OECD calculations.



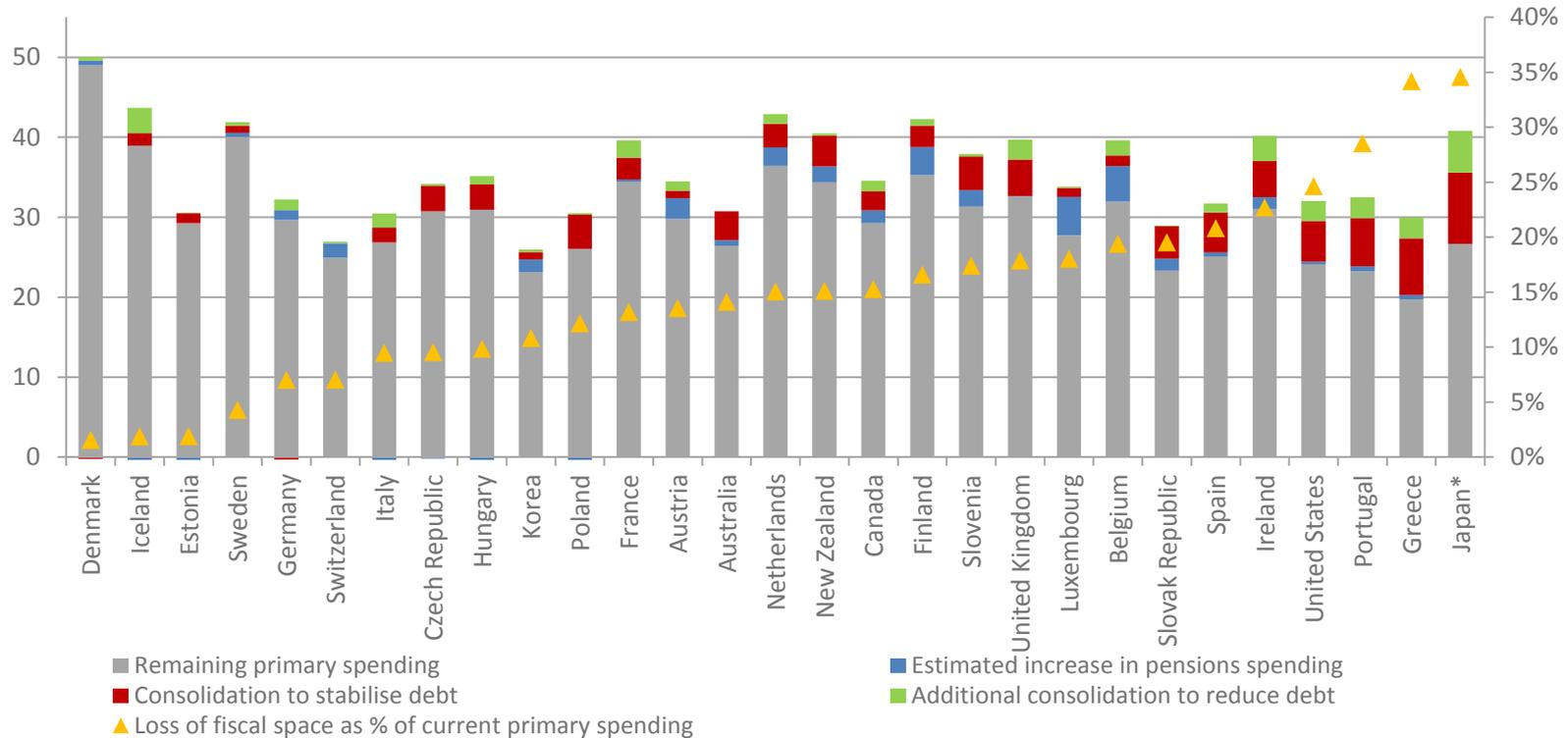
Fiscal space

- Concept developed by emerging countries in the early 2000s, followed by responses from IMF and UNDP responses
- Recent adaptation to concerns in developed countries: tolerance to debt
- Performed in a disaggregated way by budget officials all over the world
- Needing better organisation and tools, that may make good use performance information



Fiscal space will remain a scarce commodity in the future...

**Estimated loss of fiscal space
as % of GDP and % of current primary spending (2011-2030)**



Countries are ranked in order of their loss of fiscal space. Loss of fiscal space is shown as percentage of current primary spending and includes the estimated increase in public pensions spending, consolidation needed to stabilise debt and consolidation needed to reduce debt.

* Loss of fiscal space for Japan doesn't include public expenditure on pensions and projections.

Source: OECD elaboration.

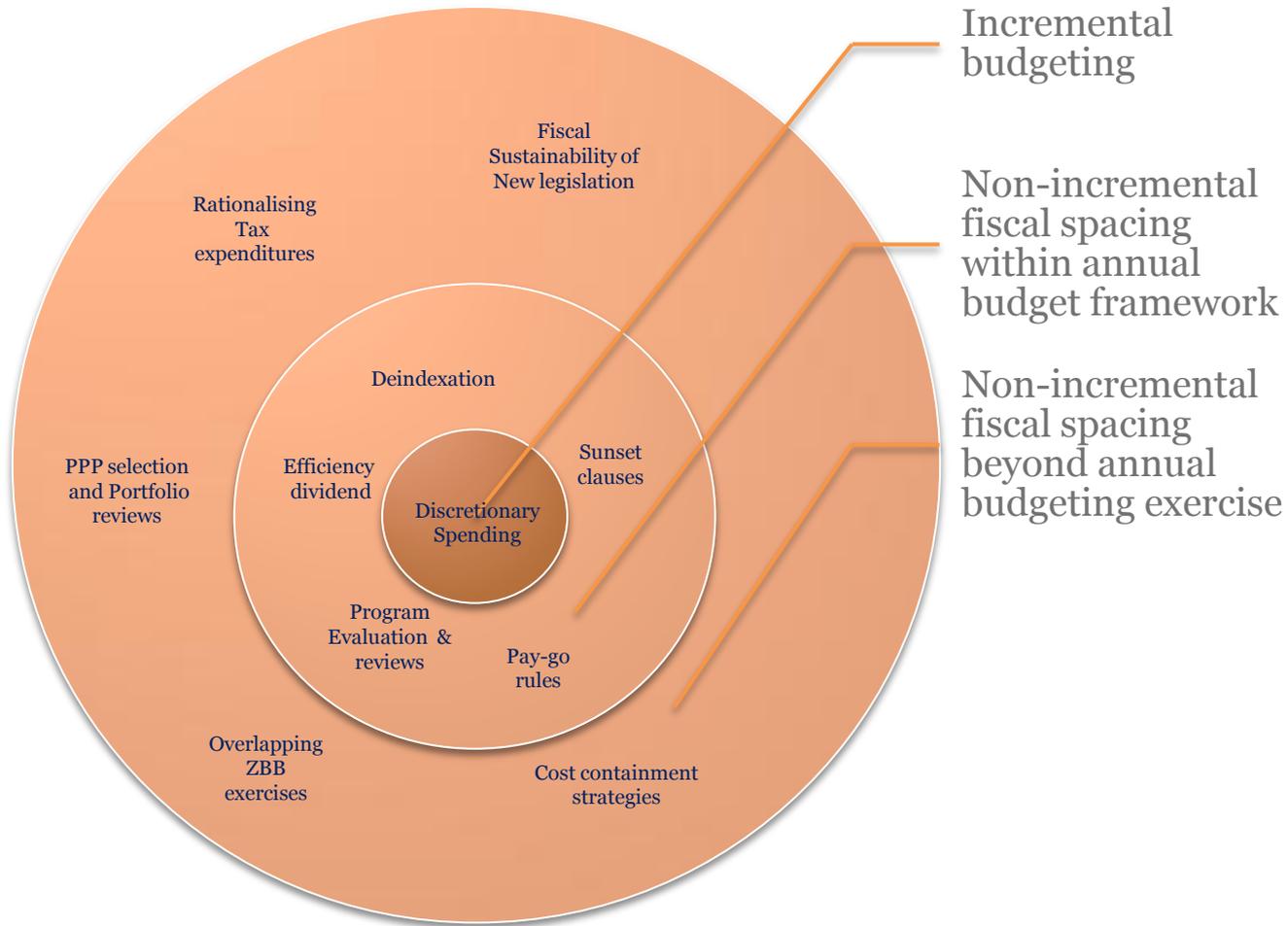


Generating fiscal space

- Fiscal space will be needed to respond to additional spending demands as well as to cushion further restrictions at a lower social cost
- Fiscal space is not entirely exogenous, it may be increased by rigorous budgeting
- Part of regular work of budget officers everywhere, but will need to be scaled up and systematized



Generating and reallocating fiscal space





Main features of broader fiscal spacing mechanisms

Mechanism	Focus	Key actors	FS potential	Risks/challenges
Rationalisation of tax expenditures	Tax expenditures	CBO, tax administration, legislature	Large in some countries (US, Mexico)	Cooperation from legislature, resistance from pressure groups
PPP portfolio reviews	Fiscal commitments and contingent liabilities from PPPs	MoF, CBO, PPP unit	Large in some countries (Spain, Portugal, UK, México, Chile)	Contract inflexibility, sunk costs
Overlapping zero-based budgeting exercises	Large programs Set of programs aimed at same objective	MoF, CBO, CoG, line ministries, Evaluation Office	Larger and medium-term, potentially overlaps with evaluations and reviews	Resistance from pressure groups, cooperation from line ministries
Cost containment programs	Cost-push in supply-driven areas	CBO, line ministries, procurement authority, competition authority	Large in some sectors (health, defense)	Resistance from pressure groups, cooperation from line ministries
Fiscal sustainability of new legislation	Permanent legislation with fiscal implications	MoF, CBO, legislature, Independent Fiscal Institutions	Large	Cooperation from legislature, autonomous expertise



Some requisites

- Analytical challenges
 - Medium-term budget scenarios
 - Fiscal rules and spending ceilings
 - Sustainability and risk analysis
- Adjustments to budget process
 - Strengthening evaluation phase of budget cycle
 - Separating fiscal spacing from allocation
 - Develop capacity of CBOs to understand evaluations, assessments
- Institution building
 - Levelling the playing field of performance scrutiny
 - Broadening stakeholders of fiscal responsibility
 - Increasing legitimacy and authority of evaluations through independent bodies
 - Regaining spending authority, reapplying to funding



Is PbR relevant anymore? What next?

- Concern with results and performance should not go away if governments are expected to do more with less
- Across-the-board cuts may take a toll on public services
- Still, PbR techniques should be adapted to support fiscal consolidation



Final thoughts

- Concern with results and performance should not go away if governments are expected to do more with less, but PB techniques should adapt to support fiscal consolidation
- Extending fiscal responsibility beyond MoF, CBOs require complementary, partnering with other actors
- Timing to promote change may be limited; risk of self-indulgence once emergency is over



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