

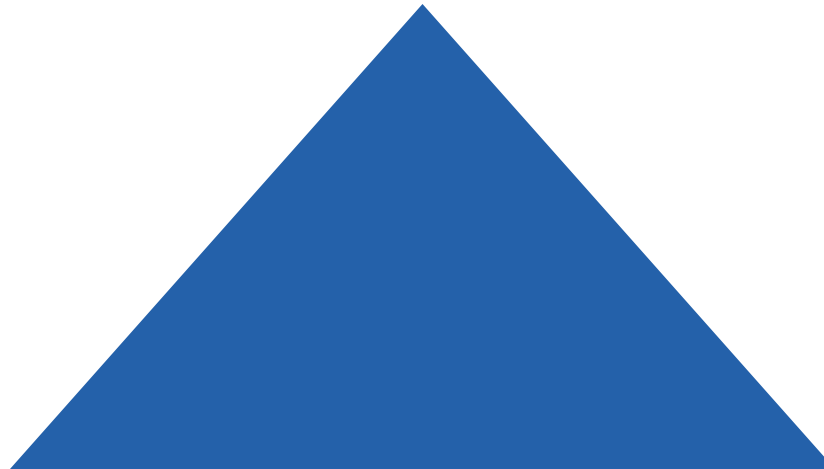
Strengthening Budgetary Procedures

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**Jón Ragnar Blöndal
Head, Budgeting and Public Expenditures**

Successful Fiscal Outcomes

Political Will



Economic Growth

Budget Procedures

Budgeting Reform Trends

- **Fiscal Rules**
- **Calculating Economic Assumptions**
- **Medium-Term Expenditure Frameworks**
- **Top-Down Budgeting Techniques**
- **Greater Managerial Flexibility**
- **Performance and Results**
- **Accrual Budgeting?**
- **Role of the Legislature**

Fiscal Rules

- **Foster credibility in government's fiscal stewardship**
- **Fiscal rules require political commitment**
- **Expenditure rules are superior to surplus/deficit rules**
- **Expenditure rules should be “flexible” for some types of expenditure, *i.e. the automatic stabilizers***
- **Cyclically-based fiscal rules are not practical and difficult to understand**
- **Beware: Tax expenditures & PPP's**

Calculating Economic Assumptions and Tax Revenue

- **By far, the most significant fiscal risk**
- **Full disclosure**
 - Sensitivity analysis
 - Comparison with private forecasters
- **Use of Independent boards / agencies**
- **Prudency Factors**
 - Systematic and explicit downward revisions
 - *Ex ante* rules on use of any fiscal windfalls

Medium-Term Expenditure Frameworks

- **Reconciles fiscal rule and baseline projections of revenues and expenditures (macro/micro)**
 - Identifies fiscal space or fiscal consolidation needs
 - Reinforces credibility in government's fiscal stewardship
- **Lengthens the time frame of budgeting (3+ years)**
 - Foundation for the annual budget process: First year beyond the budget becomes the budget for that year if no policy changes
 - Needs to be kept constantly up-to-date
- **Key Risk**
 - Often not well integrated with annual budget process

Top-Down Budgeting Techniques

- **Based on medium-term expenditure framework**
- **Lump sum allocations per ministry**
 - “Each Minister is his own Finance Ministers”
 - Some ring-fencing (Staff, Operating, Transfers, Capital)
- **Benefits**
 - Budget reflects political prioritization
 - Reduces game-playing
 - Internal reallocations; less “auto” increases
 - Information asymmetry
 - “Ownership” of actions

Greater Managerial Flexibility

- **“Deregulation” / Structural Reform**
 - Merging line-items in budgets
 - Reforming central management controls
 - Ministries and agencies organizational model
- **Heads of ministry/agency in best position to manage resources effectively & efficiently**
- **Strong pre-conditions required**
 - Robust system of internal controls and audit

Performance and Results

- ***Quid Pro Quo* for Increased Managerial Flexibility**
 - New form of accountability, but generally lagging
- **Technical Issues**
 - Outcomes versus outputs
 - Definition and measurement
- **Lack of interest by managers**
 - Simply another layer of central controls
- **Lack of interest by elected officials**
 - Cash appropriations dominate politics
 - Information overload

Accrual Budgeting? NO!

- **Very few countries have adopted it**
 - Australia, New Zealand and the United Kingdom
 - All Westminster countries with limited role of the legislature
 - “If we knew then what we know now, we would not have implemented accrual budgeting.”
 - Others have applied it for a limited set of transactions
- **Problems**
 - Very complex and technical
 - Potential benefits do not outweigh the significant costs
 - Ministers and Members of Parliament reject it as too theoretical
 - Civil servants reject it as it may invite possible abuse
 - “Expenditures should be recorded when the political decision to spend money is taken.”

Role of the Legislature

- **General characteristics**
 - Most divergent aspect of budgeting from one country to another
 - Worldwide trend for a greater role
- **Promoting fiscal discipline in Legislatures**
 - Pre-Budget Statement: focusing on aggregates and the impact on economic performance
 - Two (Three) step approval process: approving aggregate limits before considering (sectoral) and individual appropriations
 - Committee system – role of budget committee vs. sectoral committees
 - Analytical resource of the legislature
 - Training of Members of Parliament

Conclusion

- **Similar Reforms Across OECD countries**
 - But from different starting points...
 - ...And at different speeds
 - ...And with different emphasis
- **“Health Warning”**
 - Don't *Leapfrog!*

For further information



www.oecd.org/gov/budget

OECD Journal on Budgeting

jon.blondal@oecd.org