



Medium Term Fiscal Frameworks and expenditure ceilings for capital spending

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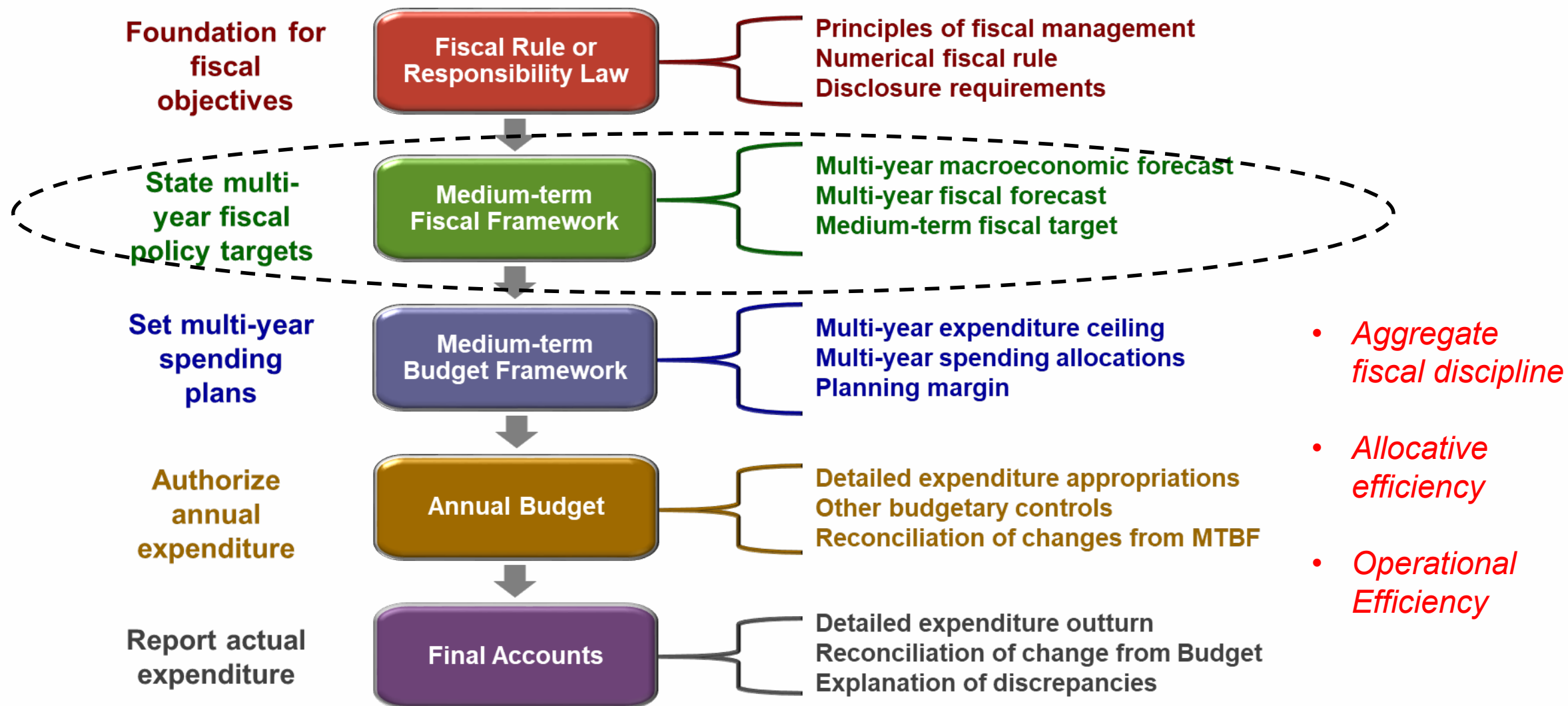
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Outline

- What is the Medium term fiscal framework (MTFF) and why is it important?
- What is good practice with regard to MTFF?
- The importance of medium term budgeting
- What are expenditure ceilings and why are they particularly important for investment spending?

What is a medium term fiscal framework?



What is the Medium Term Fiscal Framework?

- A medium-term **macro-fiscal forecasts**: aggregate level of revenue, expenditure and financing, including a distinction between capital and recurrent and ongoing a new projects (PIMA institution 1)
- A comprehensive **statement of fiscal policy objectives and targets** consistent with macroeconomic stability and fiscal sustainability
 - **Embedded within realistic and internally consistent medium term macroeconomic projections.**
 - **Aligns fiscal policy with budget preparation**

Example of MTFE in the region

Table 4. 2017 - 2021 Central Government Budget (Budget of the Republic of Macedonia), Denar million

	Execution 2017	Budget 2018	2019*	2020*	2021*
Total revenues	179,673	193,512	207,904	219,452	230,530
Tax revenues and contributions	157,537	170,200	181,693	191,942	203,216
Tax revenues	104,647	114,797	122,994	129,753	137,026
Contributions	52,890	55,403	58,699	62,189	66,190
Non-tax revenues	13,396	17,201	16,949	19,016	19,597
Capital revenues	1,316	1,510	1,403	1,403	1,403
Donations	7,424	4,601	7,859	7,091	6,314
Total expenditures	196,561	211,745	225,169	236,614	246,636
Current expenditures	176,698	187,601	197,754	206,505	215,715
Wages and allowances	26,204	27,126	27,244	27,410	27,565
Goods and services	15,344	17,558	18,838	19,204	19,548
Transfers to LGUs	17,014	18,147	19,311	19,937	20,583
Subsidies and transfers	15,058	17,292	18,195	18,089	18,470
Social transfers	94,690	98,794	104,353	110,007	114,923
Interest payments	8,388	8,684	9,813	11,858	14,626
Domestic	2,845	3,165	3,470	5,217	7,546
Foreign	5,543	5,519	6,343	6,641	7,080
Capital expenditures	19,863	24,144	27,415	30,109	30,921
Budget Balance	-16,888	-18,233	-17,265	-17,162	-16,105
Primary budget balance	-8,500	-9,549	-7,452	-5,304	-1,479
Total revenues, % of GDP	29.0	29.2	29.6	29.3	28.8
Total expenditures, % of GDP	31.7	31.9	32.0	31.6	30.8
Budget balance, % of GDP	-2.7	-2.7	-2.5	-2.3	-2.0
Primary budget balance, % of GDP	-1.4	-1.4	-1.1	-0.7	-0.2

Source: Ministry of Finance and projections of the Ministry of Finance (*)

What is considered good practice?

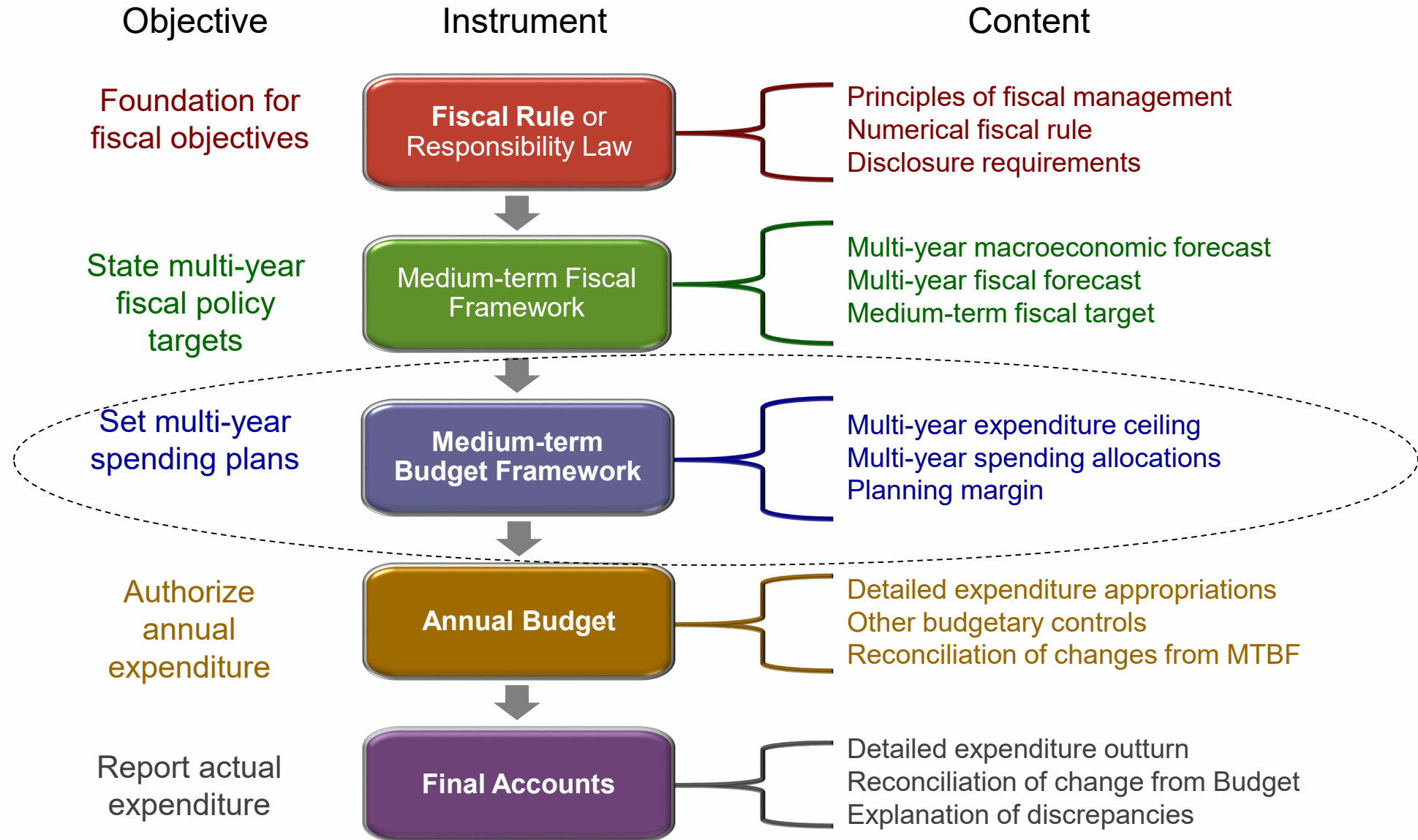
Is there a MTFF in place to align the budget preparation with fiscal policy?

Weak: there is no MTFF adopted prior to budget preparation

Medium: There is an MTFF prepared prior to budget preparation, but it is limited to fiscal aggregates such as expenditure, revenue, deficit or borrowing

Good: There is an MTFF prepared prior to budget preparation, which includes fiscal aggregates and allows distinctions between recurrent and capital spending and ongoing and new projects

Medium Term Expenditure Ceilings



Medium term budgeting

1. Capturing deferred effects:
 - decisions today have consequences tomorrow
2. Making non-discretionary into discretionary:
 - all policies can be changed with enough time
3. Signaling future changes:
 - managing expectations and allowing time to adapt
4. Committing to future expenditure limits:
 - binding limits addresses time-inconsistency of spending preferences
 - provides certainty on availability of funding

Medium Term Expenditure Ceilings: Purpose and Concepts

Understanding of the cost of government policies over the:

- budget year
- medium-term (full project costs should be disclosed)
- long-term

Important to understand **Baseline expenditures**:

- No-policy-change basis (including existing commitments)
- Impact of new policies
- Parameter versus policy changes

Ceilings versus Estimates:

- Spending commitments can (and often do) exceed ceilings, important to also monitor and control contractual commitments
- Unrealistic budgeting can lead to unmet commitments or a build up of arrears

Budget ceiling advantages

- Strong understanding of baseline expenditure estimates becomes very important when thinking about the medium-term.
- Elements that are static year to year become fluid over the medium and long term
 - Population characteristics change
 - Behavioral responses
 - Greater policy discretion
- Medium-term Forecasts provide policy certainty and guidance to all players
- Present the full cost of policies over time
 - Allows for early adjustments for unsustainable policy commitments

Models of budget ceilings...

Legislative endorsement



Promotes parliamentary buy-in ...



... and elevates the status of medium-term ceilings and estimates ...



...but can make the framework rigid

Example: Austria, Australia, Sweden

Information only



Exposes the fiscal impact of the government's budget ...



... and increases the government's accountability ...



... but risks being treated lightly if no formal approval

Example: UK, Finland

No legislative role



The medium-term framework is an internal instrument for the government ...



... high risk of becoming a technical exercise with little impact on decision-making

What is good practice in medium term budgeting?

6. Multi-Year Budgeting: Does the government prepare medium-term projections of capital spending on a full cost basis?

6.a.	Is capital spending by ministry or sector forecasted over a multiyear horizon?	No projections of capital spending are published beyond the budget year	Projections of total capital spending are published over a three to five-year horizon	Projections of capital spending disaggregated by ministry or sector are published over a three to five-year horizon
6.b	Are there multiyear ceilings on capital expenditure by ministry, sector, or program?	There are no multiyear ceilings on capital expenditure by ministry, sector, or program.	There are indicative multiyear ceilings on capital expenditure by ministry, sector, or program.	There are binding multiyear ceilings on capital expenditure by ministry, sector, or program.
6.c.	Are projections of the total construction cost of major capital projects published?	Projections of the total construction cost of major capital projects are not published.	Projections of the total construction cost of major capital projects are published.	Projections of the total construction cost of major capital projects are published, together with the annual breakdown of these cost over a three-five-year horizon.