

Budget Institutions in G20 Countries

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December 13, 2014



Budget Institutions in G-20 countries

Outline of the Presentation

I. Fiscal Management

- a. Fiscal Management Institutions
- b. Fiscal Management Institutions in Comparative Perspective
- c. Fiscal Performance in Comparative Perspective

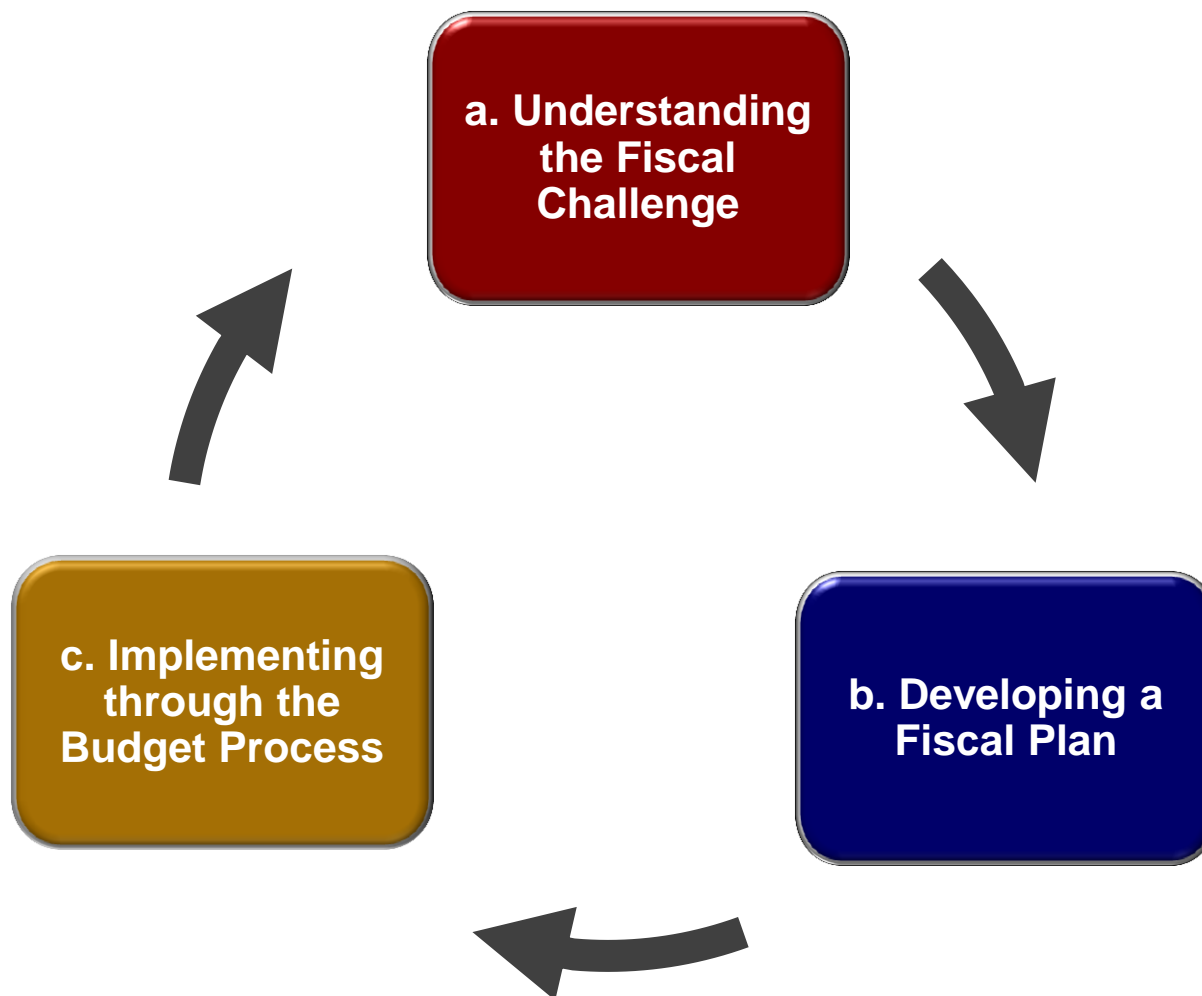
II. Public Investment Management (PIM)

- a. Public Investment Institutions
- b. Public Investment Institutions in Comparative Perspective

III. Implications for Budget Reform

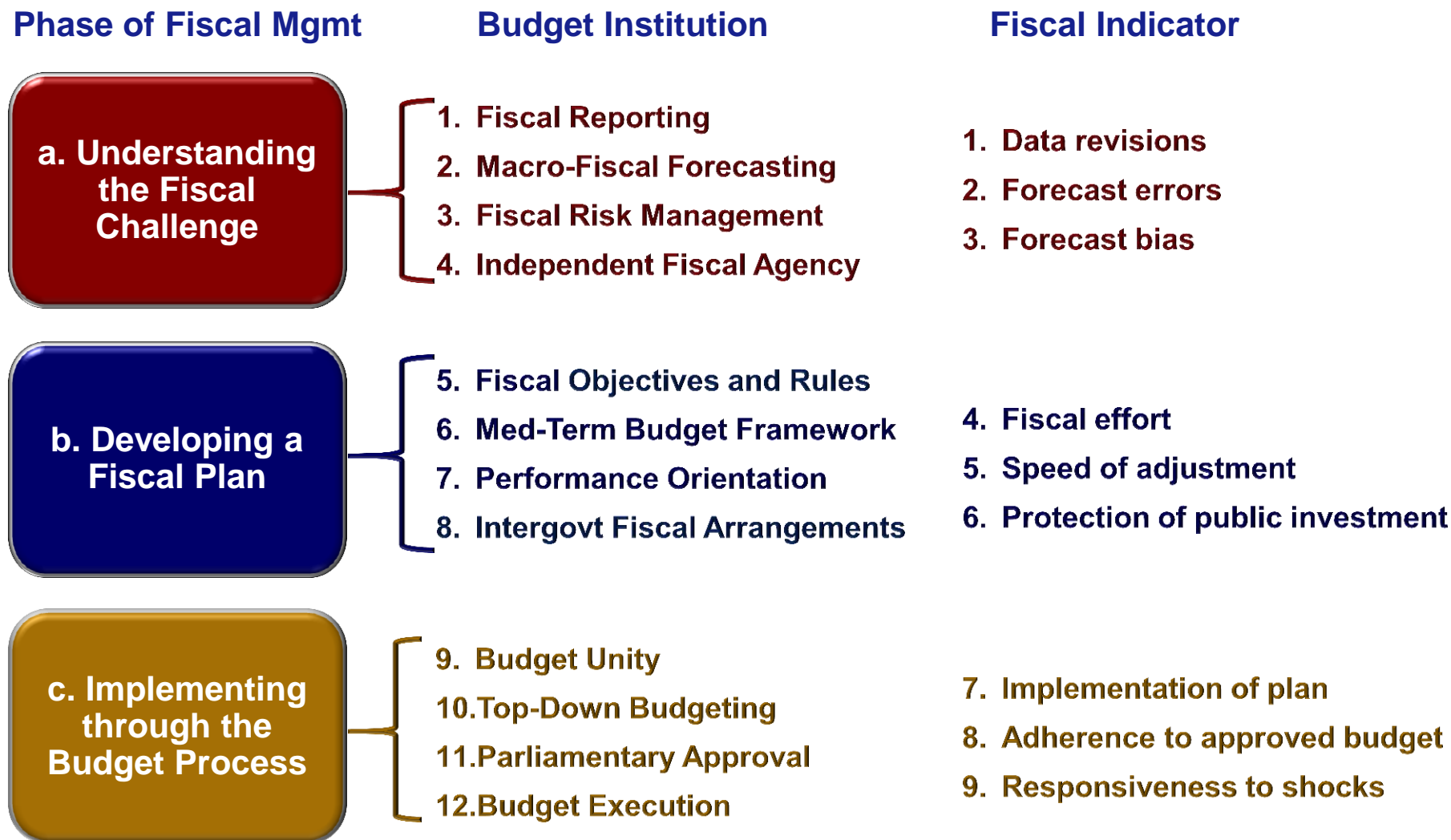
I. Fiscal Management

I.a Budget Institutions Involved in Fiscal Management: Three Stylized Phases of the Management Process

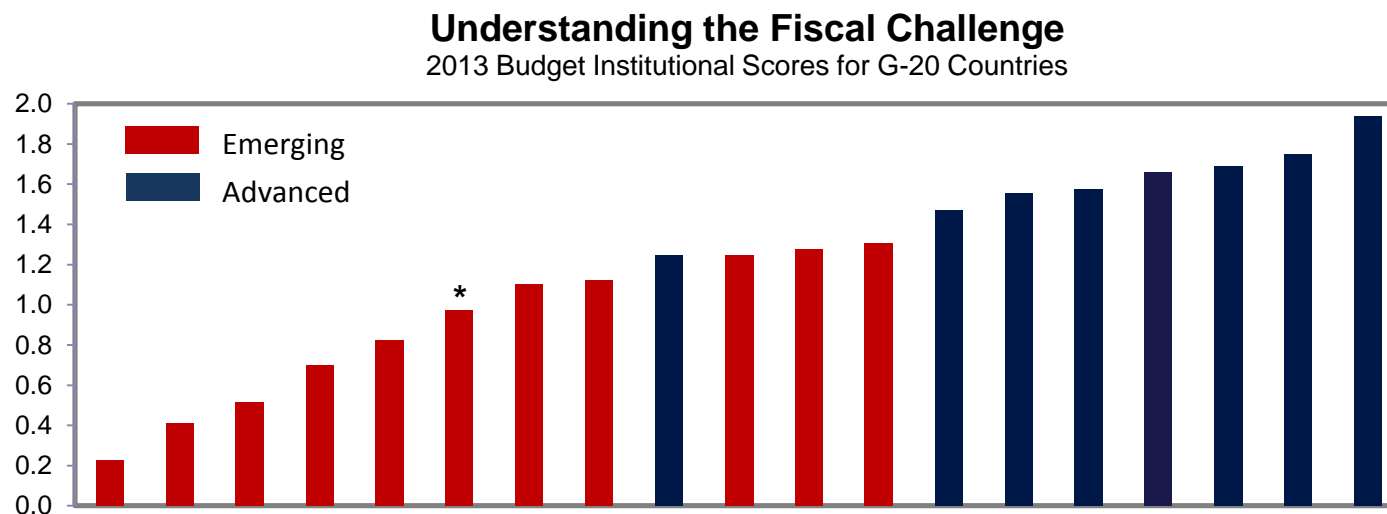
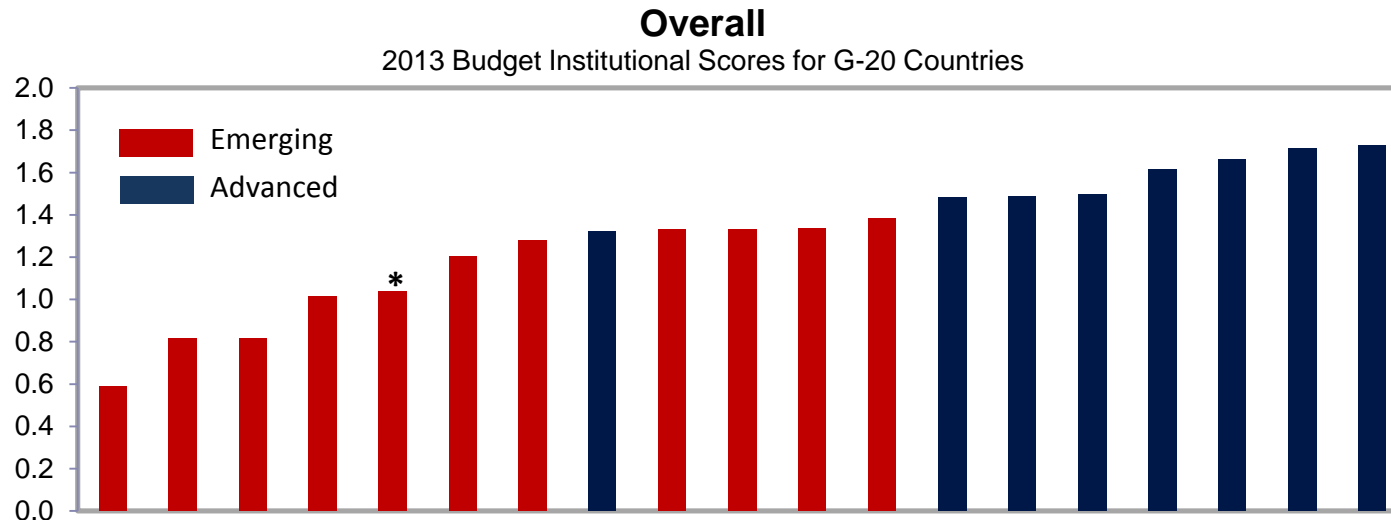


I.a Budget Institutions Involved in Fiscal Management:

12 Budget Institutions and 9 Fiscal Indicators

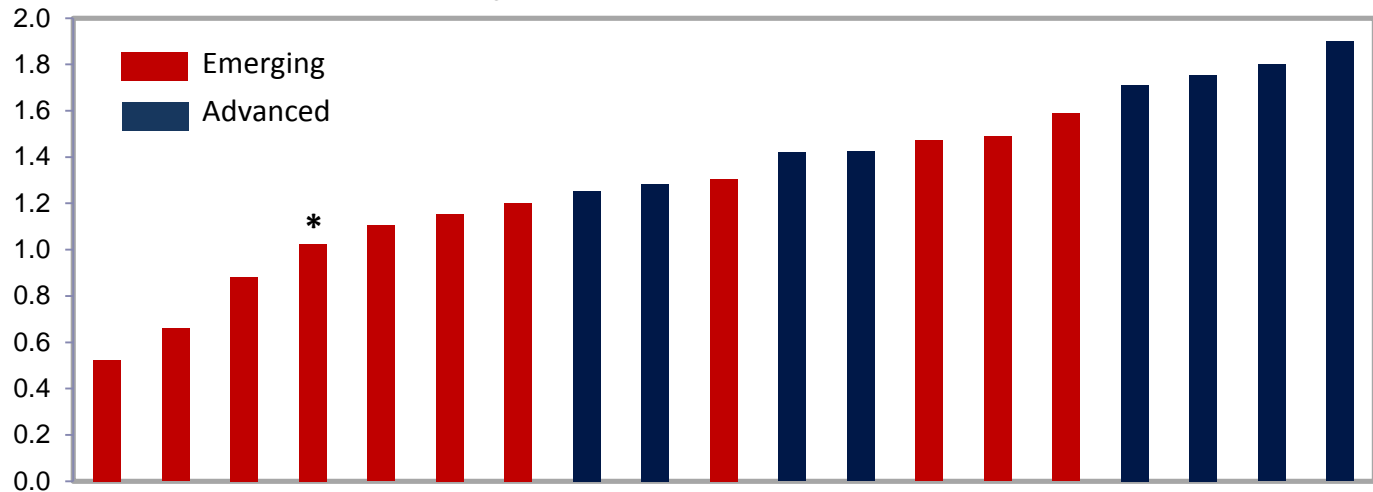


I.b Comparative Ranking of Institutions—Advanced and Emerging Economies

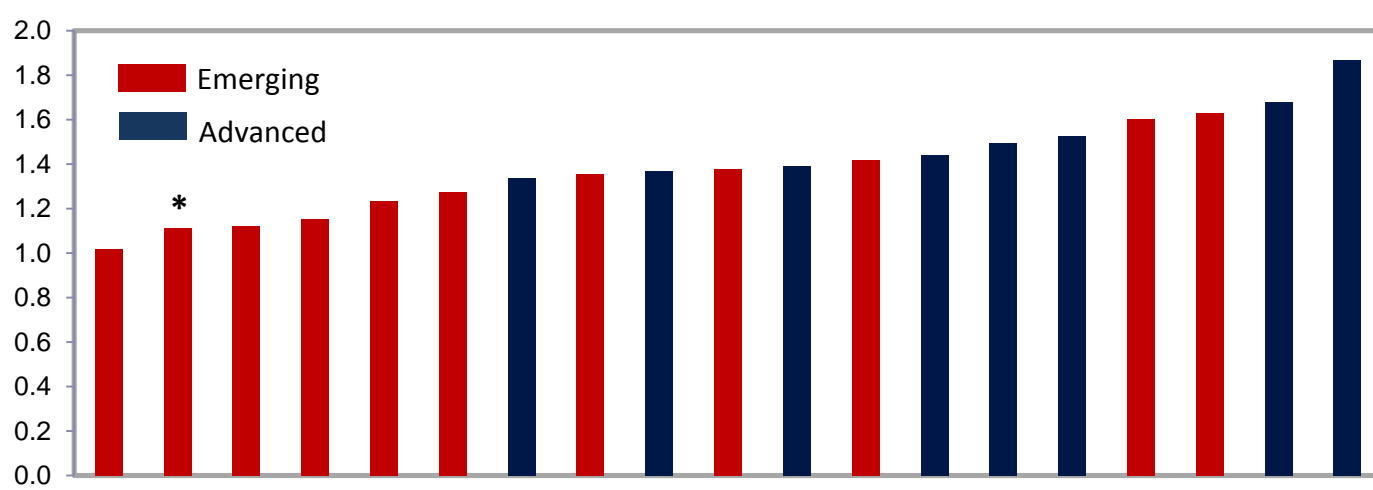


I.b Comparative Ranking of Institutions—Advanced and Emerging G-20

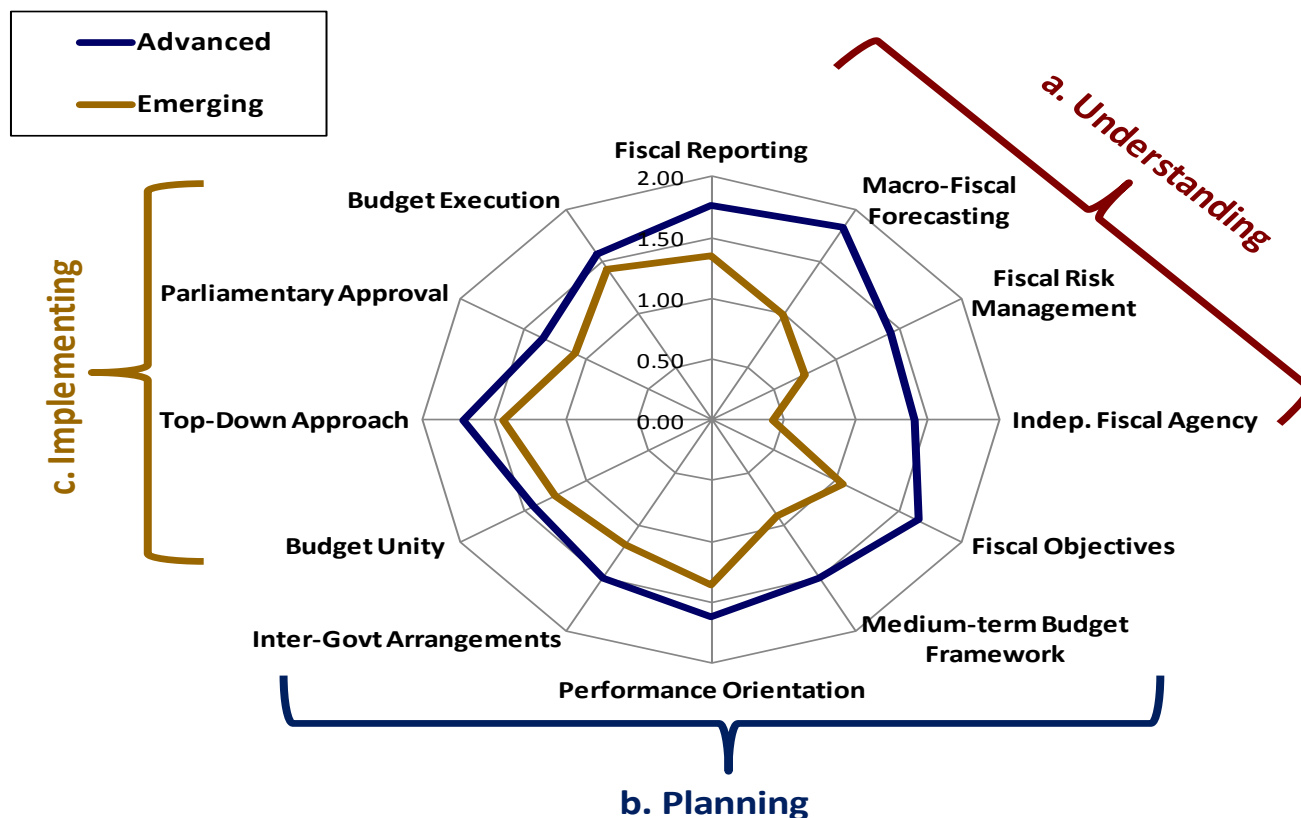
Developing a Fiscal Plan
2013 Budget Institutional Scores for G-20 Countries



Implementing through the Budget Process
2013 Budget Institutional Scores for G-20 Countries



I.b Comparative Ranking of Institutions—Advanced and Emerging G-20



- The largest gaps between Advanced and Emerging countries appear in the “Understanding” category institutions
- Emerging countries do relatively well compared to Advanced countries in the “Implementing” category institutions

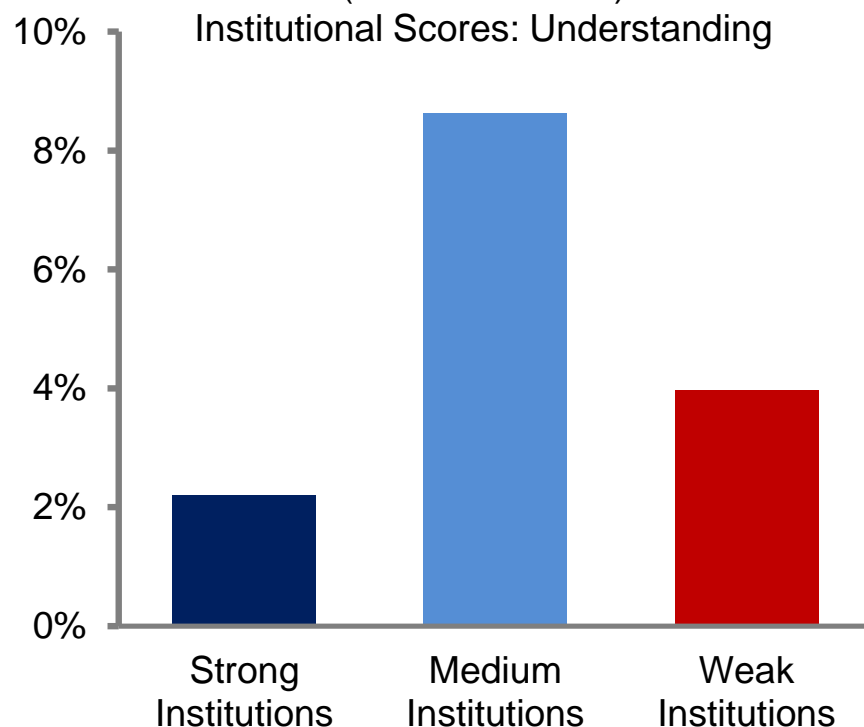
I.c Fiscal Performance in Comparative Perspective

Understanding the fiscal challenge

Absolute Revision to 2009 General Government Debt

(Percent of GDP)

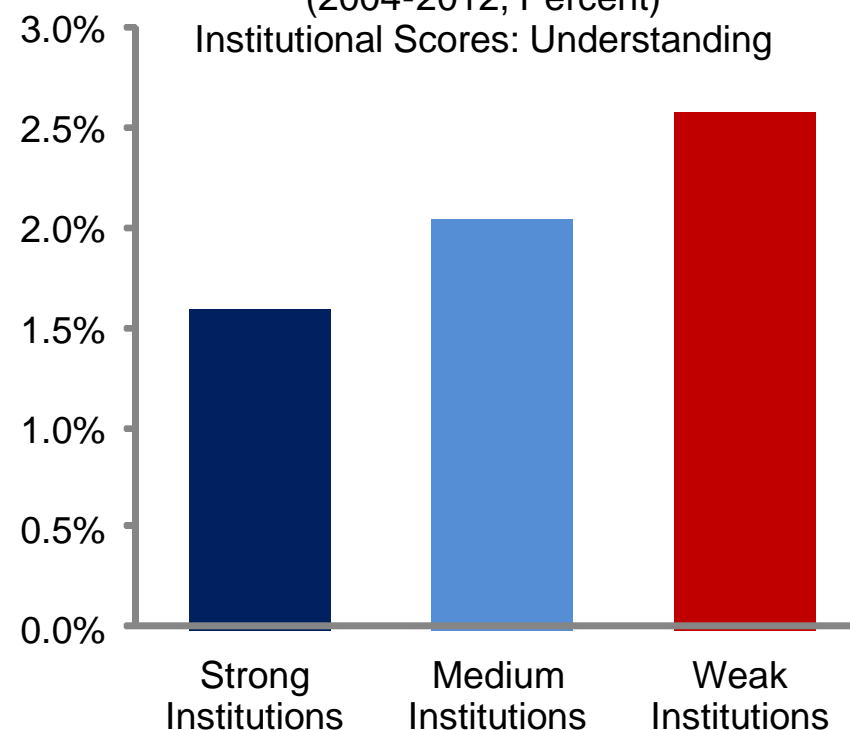
Institutional Scores: Understanding



Average Absolute Year - Ahead GDP Forecast Error

(2004-2012, Percent)

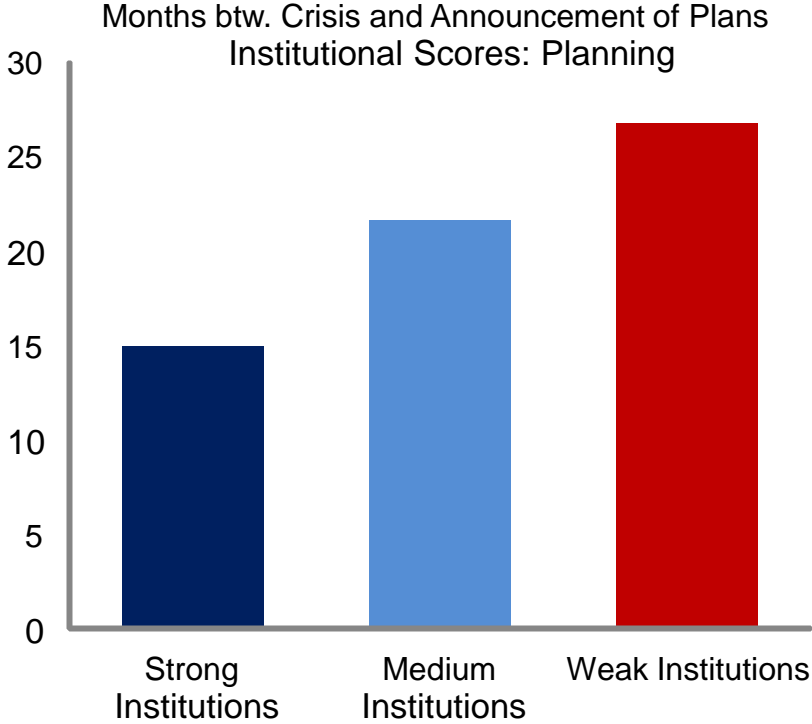
Institutional Scores: Understanding



I.c Fiscal Performance in Comparative Perspective

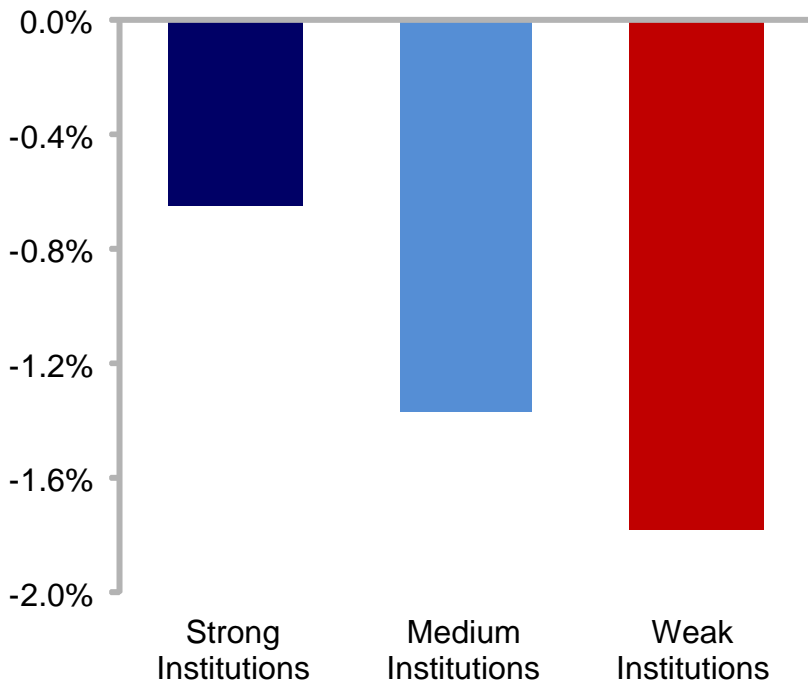
Developing a fiscal plan

Timeliness of Consolidation Plans



Protection of Capital Expenditure

(2010-2012; Change in Capital Expenditure as a Share of Total Expenditure)
Institutional Scores: Planning



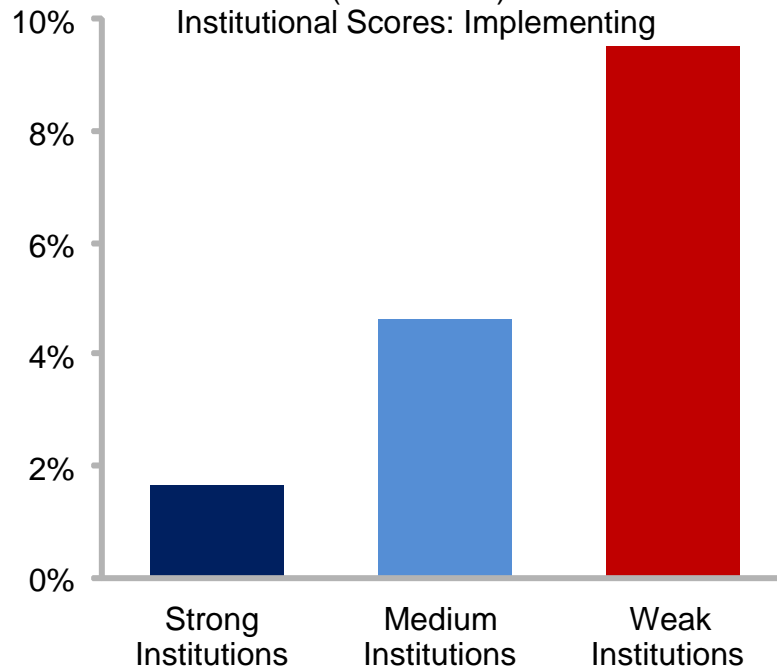
I.c Fiscal Performance in Comparative Perspective

Implementing through the budget process

Actual Deviation from Approved Budget

(2008-2012)

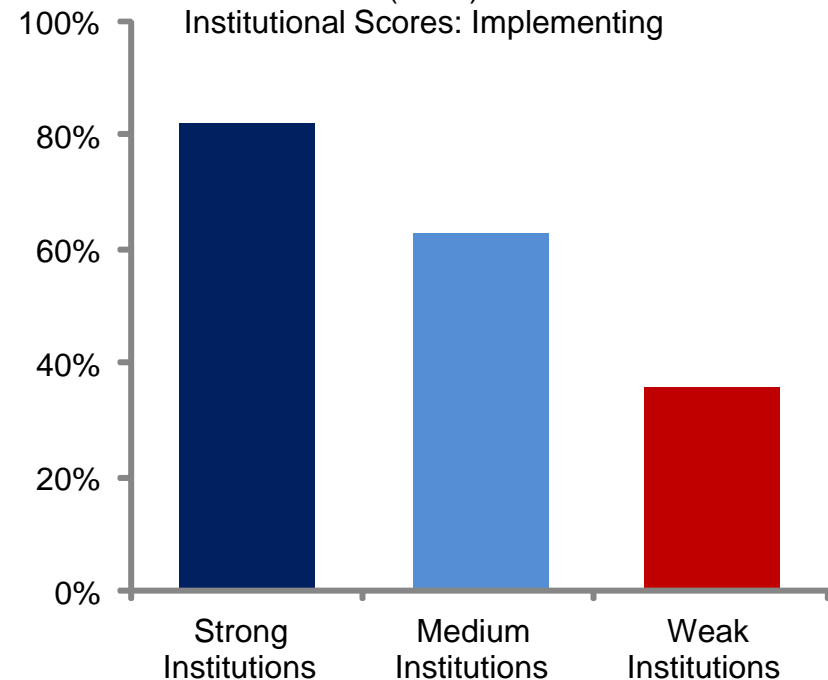
Institutional Scores: Implementing



Parliamentary Approval Score

(2013)

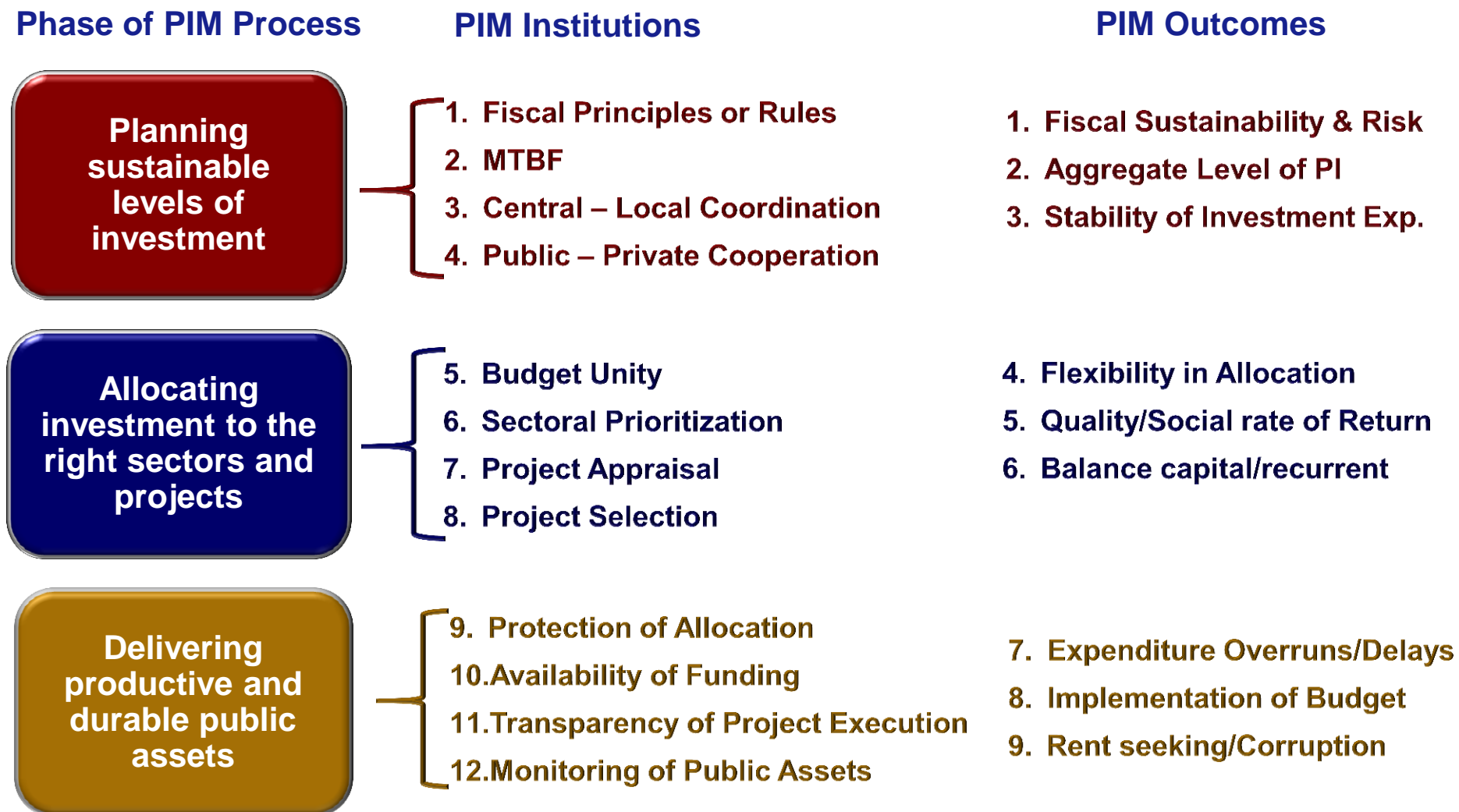
Institutional Scores: Implementing



II. Public Investment Management (PIM)

II.a Public Investment Institutions Involved

12 Budget Institutions and 9 Fiscal Indicators



II.b Public Investment Institutions in Comparative Perspective

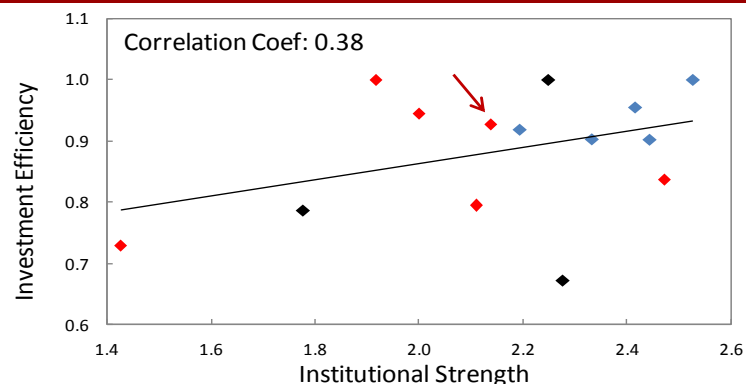
Preliminary findings for 16 countries

		Score by Country (sorted in order from highest to lowest)																Average by Group		
	Public investment institutions	ADV	ADV	EME	ADV	ADV	LIDC	ADV	EME*	LIDC	EME	EME	EME	EME	LIDC	LIDC	EME	ADV	EME	LIDC
Planning	1. Fiscal Principles or Rules	2.0	2.0	2.7	2.0	3.0	2.0	1.7	2.7	1.7	2.3	1.3	1.7	1.3	2.0	1.5	1.0	2.1	2.1	1.5
	2. Medium-term Budget Framework	2.3	2.3	3.0	1.7	2.0	2.7	1.7	2.0	2.3	2.3	2.3	2.0	1.7	1.7	1.0	1.0	2.0	2.3	1.9
	3. Central-Local Coordination	2.0	2.0	1.7	1.7	1.7	2.7	1.7	1.7	2.0	1.7	1.3	2.0	2.3	2.3	1.7	N/A	1.8	1.9	2.2
	4. Public-Private Cooperation	3.0	3.0	3.0	3.0	2.0	2.0	2.0	1.7	N/A	1.3	2.3	2.0	1.7	2.0	1.3	1.3	2.6	1.9	1.7
Allocating	5. Budget Unity	3.0	3.0	3.0	3.0	3.0	3.0	1.7	2.0	2.7	3.0	2.0	2.3	2.3	2.3	1.5	2.0	2.7	2.3	2.5
	6. Sectoral Prioritization	2.7	2.7	2.7	2.3	2.3	3.0	3.0	3.0	2.3	2.3	2.3	2.0	2.3	3.0	2.7	2.0	2.6	2.4	2.5
	7. Project Appraisal	2.7	2.3	2.0	2.7	2.0	2.3	2.7	2.0	2.3	1.3	2.3	1.7	1.7	1.7	1.7	1.0	2.5	1.8	1.8
	8. Project Selection	3.0	2.0	2.3	2.0	2.3	2.7	2.3	2.0	2.0	1.7	1.3	2.3	1.7	1.7	2.0	1.7	2.3	2.0	1.9
Delivering	9. Protection of Allocation	2.0	2.7	2.7	2.3	2.3	2.0	2.3	2.0	2.0	2.0	2.0	1.3	1.7	1.3	1.0	1.7	2.3	2.2	1.9
	10. Availability of Funding	2.3	3.0	2.3	3.0	2.7	1.7	2.0	2.3	3.0	2.3	2.0	1.3	1.7	1.0	1.0	2.0	2.6	2.1	2.1
	11. Transparency of Project Execution	2.3	2.3	2.7	3.0	2.7	2.7	2.7	3.0	1.7	2.0	2.3	2.0	2.3	2.0	2.0	1.3	2.6	2.3	1.8
	12. Monitoring of Public Assets	3.0	2.7	1.7	2.3	2.0	1.3	2.7	1.3	1.3	2.3	2.3	2.3	1.3	1.0	1.0	1.0	2.5	1.8	1.2

- Advanced economies are especially strong in allocation and delivery of PI
- All countries are relatively weak in planning (and coordinating) PI
- Relative strengths and weaknesses of institutions vary by country grouping

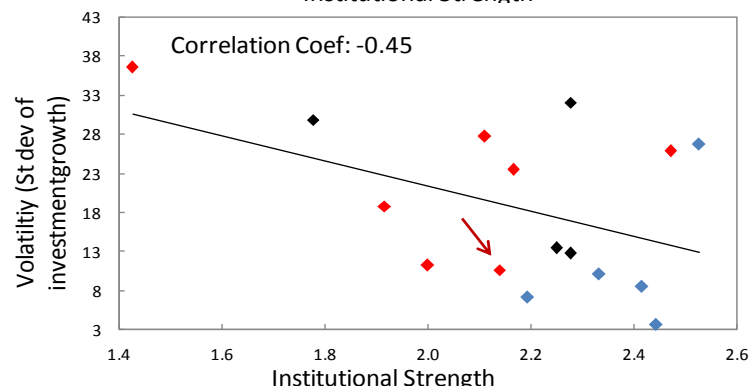
II.b Comparative Performance—Advanced and Emerging G-20

Preliminary analysis



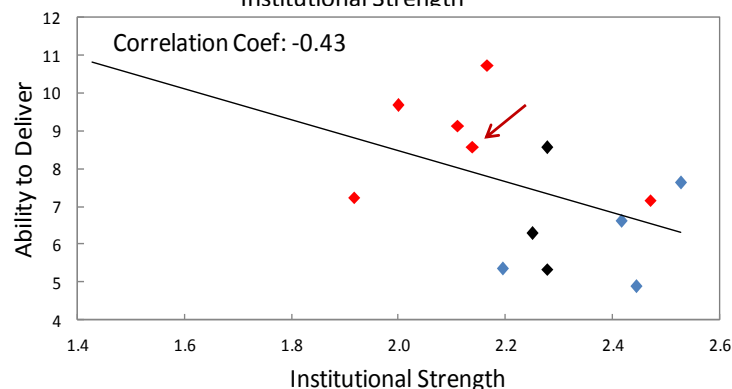
**Public Investment Efficiency
to Institutional Strength**

**Strong
institutions
relate to more
efficient
investment ...**



**Volatility of public investment to
institutional strength**

**...and less
volatile, more
predictable
investment**



**Absolute variance between
budgeted and actual public
investment to institutional
strength**

**Also, the ability
to deliver the
planned budget
improves with
institutional
strength**

* Public Investment Efficiency is position relative to efficiency frontier adj for GDP per capita

III. Conclusions and Implications for Reforms

Summary of Conclusions

- **Well-designed budget institutions can help in fiscal management (including fiscal adjustment)**
- **Budget institutions have been strengthening in the G-20 since 2010**
- **The 20 countries with stronger budget institutions have tended to deliver more fiscal adjustment**
- **There is still considerable scope for institutional reform in the G-20**

III Implications for Reform

Understanding the Fiscal Challenge

INSTITUTION	RECOMMENDATIONS		
	Advanced G-20 Countries	Emerging G-20 Countries	India
a. Understanding the Fiscal Challenge			
Fiscal Reporting	Extend the coverage of fiscal statistics and accounts to cover the public sector	Extend fiscal statistics to cover general government and in the long run the public sector.	Include autonomous bodies and extra-budgetary funds in Union accounts, and publish accounts within 6 months of the end of the fiscal year.
Macro-fiscal forecasting		Develop a mid-year forecast update and an ex-post comparison of previous forecasts and outturn. Produce long-term fiscal projections.	Publish annually, medium-term macroeconomic forecasts and link fiscal targets to the forward macroeconomic projections. Publish the underlying assumptions. Long-term fiscal forecasts should also be prepared and updated at least for every Five Year Plan.
Fiscal risk management	Improve reporting on specific fiscal risks including contingent liabilities and financial asset holdings.	Expand the analysis of fiscal risks including through analyzing the fiscal implications of alternative macroeconomic forecasts.	(No Board paper recommendation. Outstanding explicit guarantees are reported in quantitative terms for each ministry. Fiscal risks from macroeconomic developments, int'l and social commitments, pensions, PPPs, legal claims and implicit contingent liabilities are not discussed or quantified.)
Independent fiscal agency		Establish independent fiscal agencies to evaluate fiscal performance, and to assess or produce the official macroeconomic and fiscal forecasts.	Promote independent agencies for macroeconomic and fiscal forecasting and compilation of fiscal statistics.

III Implications for Reform

Developing a Credible Fiscal Plan

INSTITUTION	RECOMMENDATIONS		
	Advanced G-20 Countries	Emerging G-20 Countries	India
b. Developing a Credible Fiscal Plan			
Fiscal objectives and rules	Establish fiscal rules which accommodate the business cycle and include transparent and credible escape clauses.		(No Board paper recommendations. Recent amendments to the FRBM Rules require the govt to reduce the overall fiscal deficit to 3% of GDP by 2017 and eliminate the recurrent budget deficit by 2015. Fiscal objectives do not reflect the business cycle.)
Medium-term budget framework	Establish binding multi-year restrictions on aggregate expenditure which cover the bulk of discretionary central government expenditure.	Set out medium-term sectoral priorities for expenditure. Separately identify the fiscal impact of current and new policies.	A binding medium-term budget framework could be considered. The Medium-Term Fiscal Policy Statement and Five Year Plans should be better integrated to provide rolling multi-year expenditure limits. Identify the impact of new revenue and expenditure policies.
performance orientation		Introduce comprehensive reviews of sectoral spending allocations on a regular basis.	Integrate performance information in the budget preparation and the budget decision-making process and strengthen transparency and accountability in budget execution.
Intergovernmental financial arrangements	Strengthen coordination mechanisms between different levels of government to support the enforcement of fiscal rules.	Ensure that fiscal objectives encompass all levels of government. Extend medium-term general government projections to include an explanation of the contribution of each layer of government to the government fiscal targets.	(No Board paper recommendations. Fiscal relations, including revenue sharing, between the Union and the States, are regulated. All Indian states have fiscal responsibility laws. However, the application of most of these laws was suspended in the aftermath of the global financial crisis.)

III Implications for Reform

Implementing the Fiscal Plan

INSTITUTION	RECOMMENDATIONS		
	Advanced G-20 Countries	Emerging G-20 Countries	India
c. Implementing the Fiscal Plan			
Budget unity	Ensure the annual budget covers all of central government. Mandatory and earmarked expenditure should be reviewed on a regular basis with respect to their effectiveness and long-term sustainability.		(No Board paper recommendations. The quantum of extra-budgetary expenditure of the central government is not available in one place, but it is expected to be less than 10 percent of the budgetary expenditure.)
Top-down budgeting	Ensure that all revenue and expenditure decisions are taken as part of the annual budget preparation process within the executive.		(No Board paper recommendations. The executive budget is formulated in a robust two stage top-down and bottom-up process.)
Parliamentary approval	Ensure that the annual budget is approved by Parliament in a top-down sequence. Introduce (self-imposed) limits on the legislature's right to amend the government's draft budget.	Ensure that the annual budget is approved by Parliament in a top-down sequence. Introduce a budget debate allowing legislators to endorse the government's fiscal strategy. Introduce (self-imposed) limits on the legislature's right to amend the government's draft budget.	(No Board paper recommendations. Parliament approves the budget following procedures outlined in the Constitution. The "General Discussion" at the beginning of the budget debate focuses on the budget as a whole, but there is no requirement for the budget aggregates to be approved before considering detailed spending proposals.)
Budget execution	Introduce robust and credible restrictions on overspending during the budget execution stage, including firmer controls over multi-year commitments.		(No Board paper recommendations. There is no restriction on the government's ability to seek supplementary appropriations. However, in practice, the government generally discourages supplementaries that result in a net increase in expenditures.)