INTEGRATION OF STRUCTURAL REFORMS INTO BUDGETS – WHY THE EVENT?

CEF EAG

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AGENDA

- General approach to budget preparation
- Approach to finding fiscal space for new policy initiatives
- Approach to integration of budget preparation with policy planning
- Connection to ERP
General approach to budget preparation

- **top-down (fiscal envelope)** vs **bottom-up (LM budget proposals / LM appropriations)**
- Inclusion of legal obligations and government priorities
- Negotiation process – when, who?
- Role of MoF, LMs, minister of finance, PM, parliament
Who does what

Government:
strategic priorities, outcomes

budget ministry:
coordination, keeping balanced structure

line ministries:
sector targets, indicators

Data providers: Statistical office, Eurostat, sectoral surveys, international organizations data
Fiscal framework preparation

Macroeconomic framework (IMAD)

Public finance objectives – MTBF

Revenues policy
- Taxes
- SS Contributions
- Dividends
- Tax collection efficiency

Expenditure policy
- Public sector wages
- Pension fund transfers
- Transfers to individuals
- Subsidies to firms
- Consumption efficiency
- Investments (EU funds)

Debt management
Approach to finding fiscal space for new policy initiatives

- When – when formally approved by parliament or before?
- Who confirms the costing?
- What’s the deal – within LM „limit“ or additional funds?
- Role of MoF, LMs, minister of finance, PM, parliament
Approach to finding fiscal space for new policy initiatives

- Spontaneous („No policy change“) vs Target Scenarios

- Line ministries submit to MoF costs of new policy initiatives separately from costs of ongoing (current) policies before fiscal framework is set up and when proposing budgets for next year

- LMs use different assumptions and methodologies to calculate costs of current and new policy initiatives (a common methodology is „(too difficult to estimate“)

- MoF tries to test accuracy and reasonableness of costing information presented by LMs. The best way to come to reliable calculations is cooperation between MoF and LMs.
Approach to finding fiscal space for new policy initiatives

- Example of LMs’ budget proposal that shows cost of ongoing policies as compared to cost of new policy initiatives in their total budget

<table>
<thead>
<tr>
<th>Pension fund transfer</th>
<th>2021</th>
<th>2021</th>
<th>2022</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Spontaneous</td>
<td>Target</td>
<td>Spontaneous</td>
<td>Target</td>
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<tr>
<td>Wage indexation</td>
<td>1,239</td>
<td>1,183</td>
<td>1,289</td>
<td>1,185</td>
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<tr>
<td>Inflation indexation</td>
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<td>mio EUR</td>
<td>1,239</td>
<td>1,183</td>
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<td>1,185</td>
</tr>
<tr>
<td>Difference</td>
<td>56</td>
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<td>104</td>
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</tr>
</tbody>
</table>

- In the above case, if indexation is not changed, some other policy measure needs to be undertaken in order to achieve the desired fiscal target.
Fiscal implications of structural reforms

Year 0

- Total expenditure
- Debt servicing + other legal expenditure
- Limitation of resources (to be distributed between the sectors/ministries)

Year 1

- Additional funds for financing new programmes
- Efficiency savings

Year 2

- Basic allocation

Year 3

- Summarised from the IMF

Financing the existing programmes
Approach to integration of budget preparation with policy planning

• Who ranks / prioritizes the new policy initiatives among LMs?
  (Government document with strategic priorities - ERP?)

• On what criteria?
  (Is performance budgeting important? Who sets KPIs?)
  „I want to know what you are doing and how succesful you are“
Process is far from simple and easy

• „Needs“ always surpass the resources
• Budgets as a tool for setting priorities: What is more important?!? Who gets what share of public funds?
Why is integrating SR in to budgets important?

- Using the limited fiscal space
- Need for structural reforms (improvement of quality of public finance)
- Long term effects
- ?