

# COORDINATION OF INTEGRATION STRUCTURAL REFORMS INTO BUDGETS

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# Budgeting as a support to economic policy

- Governments spend more than they earn.
- Persistent deficits lead to unsustainable debt.
- Monetary policy needs sound public finances.



- Connect the medium-term planning and economic development.
- Commitment for the decision makers, less political manoeuvre.
- Transparency and ease of fiscal planning with clear priorities and goals (indicators).
- **Clear and sound coordination of all „actors“ is essential !**

# Coordination is determined on how budgets are prepared

- Medium term fiscal framework defines top- down fiscal envelope - **MOF, GOVERNMENT**
- Bottom-up approach: **LINE MINISTRIES** proposals of structural measures and reforms
- Negotiation process – when, who, what?
- Role of social partners and general public
- Decision on priorities **GOVERNMENT**
- Adoption by the **PARLIAMENT**

# Who does what

Government:

strategic priorities, outcomes

Ministry of  
finance: fiscal  
framework



line ministries:  
sector policies,  
reforms

**Data providers: Statistical office, Eurostat, sectoral surveys, international organizations data**



# 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?
- How the line minister will argue for the funds on government level ?



# Role of line ministries in the process

## Connecting financing and contents

- Line ministries are responsible for their policies and financing of the programs, measures and reforms;
- The **link between policy makers and finance departments** is in most cases too weak!
- The „negotiation“ for the fiscal envelope **within the ministry** should be a part of the process
- Also finance departments should „take care „ of content and provide the ink to financing
- MoF is not to blame if the „money“ is not provided !



# Linking financing with sectoral strategies, policies and reforms

- 1. step: pile-up strategic documents
- 2. step: define relevance of strategies
- 3. step: pick the attainable measures and reform from sectoral strategies (level of preparation resources, financing,...)
- 4. step: define priorities
- 5. step: prepare the costing
- **6. step include in line ministries envelope**
- **7. prepare arguments and your minister for the government prioritization process**



# Economic policy in normal times

## Creating resilient economic and fiscal environment

- ❑ **Working of automatic stabilizers:** act to stabilize economic cycles and are automatically triggered without additional government action
  - Flexible labour markets: unemployment schemes
  - Financial system resilience: capital adequacy of banks
  - Sustainable social security schemes: pension and welfare incomes focused on vulnerable groups
  
- ❑ **Steering the economic and social development with structural reforms, efficiency gains, optimisation, improvements....**
  
- ❑ **MTBF: following medium term structural balance:** act to ensure long term sustainability of public finance





# Severe economic shock Covid-19

## Extreme economic damage

- Complete shut down of several sectors of economy, sales decline (retail sale, construction, transport, tourism, restaurants)
  - Termination of supply chains (automotive industry, household appliances)
  - Changes consumption patterns (basic needs, on-line ...)
  - Sudden job losses
  - Access to health care limited only to Covid needs
  - Environmental and pollution effects
- Reform plans and implementation „disrupted“**
- Severe downturn of fiscal revenues
  - Increase in public expenditure:
    - ✓ to ease the direct impact of crisis
    - ✓ to give incentives to growth
  - **Shift of available resources to overcome crisis and support recovery**



# Response to Covid -19 crisis



- Immediate redirection of funds to limit the spread of the virus and protective equipment
- Measures to preserve jobs and economic activity
- Measures to protect vulnerable groups of the population
- The dramatic drop in revenue and growth in expenditure requires new priorities!
- Are there additional funds available ? How can we combine existing sources ?

**Swift response of all players in creating and decision making is essential**



# Coordination in epidemic situation



Immediate disruption of normal working conditions

Keeping staff **at home as much as possible**:

- Teleworking: agreement, picture of workspace, reporting
- Using telephone and mobile numbers (also private)
- Using teleconferences, on line tools (zoom, webex, skype...)
- Allowing the use of private emails and computers (also some refund for use)
- **Flexible hours schemes** for those who were in the office
- **Non-paper correspondence** (signing, approvals....)



# Adaptation of work process



## Adjustment of procedures and assumptions

- More frequent check of the macroeconomic and fiscal assumptions
- Reevaluation of priorities
- More checking of current realization of revenues and expenditure
- Amendments of existing budgets and increasing public debt
- **Shorten procedures and decision making process !**

## Adjustment of existing measures and reforms

- Redesign measures to support economy and achieve structural change (support to businesses, labour market...)

## Postponement or abolishment of planned measures

- Education, deregulation, market liberalization...

**MTBF goals adjusted and postponed**

**Deviation from fiscal rules due to extreme circumstances**



# **Adaptation of selection (prioritization) of reforms: Basic principles remain, focus on recovery and resilience**

## **SCREENING (CUT-OFF) QUESTIONS:**

**Addressing health situation issues ?**

**Addressing recovery and resilience of the economy ?**

**Addressing green/digital/sustainable?**

**Addressing a binding constraint to growth?**

**Sufficient capacity and funding for implementation?**

**Clearly defined activities for implementation?**

## **SELECTION QUESTIONS:**

**Impact on competitiveness / growth**

**Impact on employment**

**Implementation complexity**

**Implementation risks**

*Based on OECD's Prioritization Manual*



# Approach to finding fiscal space for reshaped SR and new policy initiatives (LM and GOV level)

- What is the share of fixed expenditure in budget?
- Can we change laws ?
- Short term cost – long term impact
- Low cost – short term impact ?
- Revenue decreasing or increasing
- What is structural and what is directly covid-19 related ?
- What is only the „one-off“ measure ?
- 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, public
- How to improve the resilience of the economy in longer term ?



# Steps in finding fiscal space for SR and new policy initiatives with MoF

- 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.

# Budget discussions

- Consultations between MoF and ministries: coordination management and consultation decisions
- Budget decisions made between competing uses !
- Management within ministry: different directorates competing for funds
- Specification of goals: relevance of goals in time ?
- Evaluation of results – consequences ?
- **Government and PM support and swift decision making !**





# ERP - Government document with strategic priorities

## Good design and coordination of ERP measures

- Keep to the agreed/prescribed structure
- Let editors do their work !
- Assign only one objective to the measure
- Explain the link with obstacles to competitiveness and employment
- Clearly describe what the measure is about, do not overburden the text
- Specify concrete activities with their expected outputs
- Include key performance indicators

