COORDINATION OF INTEGRATION STRUCTURAL REFORMS INTO BUDGETS

Irena Drmaž, CEF EAG

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Budgetinig 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

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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 loses
- 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

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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
• Revaluation 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 form 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

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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