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Medium-term budgetary frameworks: A contribution to definitions and identification of good practices

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Outline

- The MTBF WG paper: main conclusions
- The way forward: challenges and opportunities

The MTBF WG paper: main conclusions

Main conclusions (1)

MTBF is a framework for **integrating fiscal policy and budgeting** over the medium term by linking a system of aggregate fiscal forecasting to a disciplined budget process

Developed as part of a top-down approach to fiscal policy.
As such, it does not prevent, but rather strengthen coordination with more traditional bottom-up budgeting

Its role consists in determining spending agency resource needs and reconciling these with the overall (macro) resource envelope

Main conclusions (2)

Medium Term Fiscal Framework (MTFF)

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Medium Term Budgetary Framework (MTBF)

MTFFs consist in standing requirements to commit to, report against, and be held accountable for medium-term aggregate fiscal objectives (such as debt limits, deficit ceilings, etc)

MTBFs consist in institutional arrangements **in the budget process** governing the requirement to present certain medium term financial information at specific times, procedures for making **multi-year** forecasts and **plans for revenues and expenditures**, and obligations to set **numerical expenditure limits** beyond the annual budget horizon

Medium Term Expenditure Framework (MTEF) has a similar meaning

Main conclusions (5)

A certain degree of **disconnection** between MTFF at EU level (Stability Programmes or EU MTFF) and domestic MTBF has been occurring

Current EU MTFF might not be conducive to the implementation of strong MTBFs because of:

- a) the short length of the surveillance horizon (t+1)
- b) the instability of targets also due to common methodology on potential growth estimation
- c) the absence of reconciliation procedures or plans for expenditures/revenues

Moreover, different accounting standards between EU MTFF (ESA2010) and domestic MTBFs (usually cash basis):
need for reconciliation

Main conclusions (6)

The quantitative analysis undertaken in the paper shows evidence in most countries of **moving targets and slippages** that appear driven by many factors, which are **difficult to disentangle**.

Weaknesses of MTBFs in translating medium-term aggregate fiscal objectives presented in the Stability Programmes into operational targets might have been an additional determinant for slippages, albeit it is not easy to disentangle single determinants

Main conclusions (7)

MTBFs actual design varies considerably across countries.

There is no single way to do it

However, possible to identify preconditions and key factors

Political commitment to the stability of expenditure targets is crucial, along with the related issue of reputational cost

Exporting successful arrangements in different cultural and political contexts, i.e. where reputational cost is low, might be challenging

The way forward: challenges and opportunities

The way forward (1)

Significant steps forward should be made at both EU and national level to implement more effective MTBFs.

A possible step forward: identifying a number of desirable qualitative features for domestic MTBFs' in EU countries (**no mandatory, no ranking or rating**)

These could include, *inter alia*:

- a) top-down procedures
- b) medium-term perspective in the budget and main public entities
- c) expenditure-based operational targets based on transparent forecasts
- d) reconciliation practices

The way forward (2)

IFIs can play **an important role in promoting**, within their institutional mandate, **a medium-term approach** for developing and subsequently implementing budgetary policies:

- a) IFIs could discuss the quality of domestic frameworks, possibly through the desirable features suggested in the paper
- b) IFIs could promote and monitor the implementation of such features
- c) When a satisfactory MTBF is in place, IFIs could have a role in verifying whether the medium-term orientation of budgetary policies is indeed followed through by the government in practice and not only in legislation

The way forward (3)

Instability of annual fiscal targets in the EU surveillance framework likely to limit the scope of reforms towards more effective MTBFs

A positive development: in the Proposal for a EU Directive (December 2017) a number of measures leading to a more decentralised MTFF system, that could encourage a better link between the EU MTFF and domestic MTBFs

Moreover, a review of the suitability of Directive 85/2011 expected by the end of 2018

The way forward (4)

However, if the EU surveillance framework remains unchanged, attention could be shifted to **two priorities**:

- a) strengthening Member States' instruments towards medium term expenditure planning in budget preparation;
- b) enhancing the medium-term orientation also for the EU framework, and not only of the domestic ones

Thank you for your attention

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