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Mtbf: do they work?

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Outline

- Why the interest
- Definitions - Clarifying misunderstandings
- State of play: EU legislation and subsidiarity
- The way forward and conclusions

Why the interest

The past

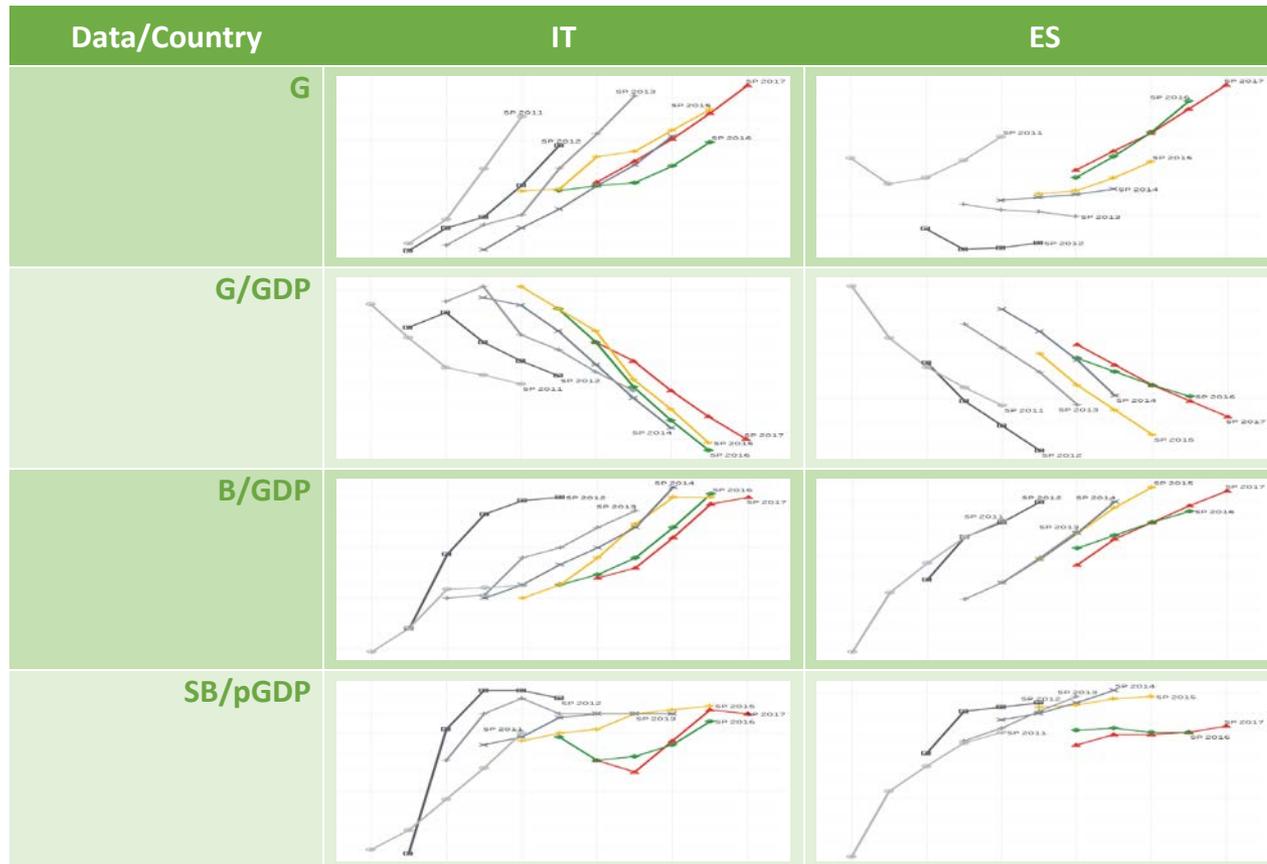
- ✓ Debate on ineffectiveness of fiscal rules
- ✓ Dutch presidency in 2016: a proposal for strengthening domestic ownership
- ✓ IFIs Network establishes a working group on MTBF

The future

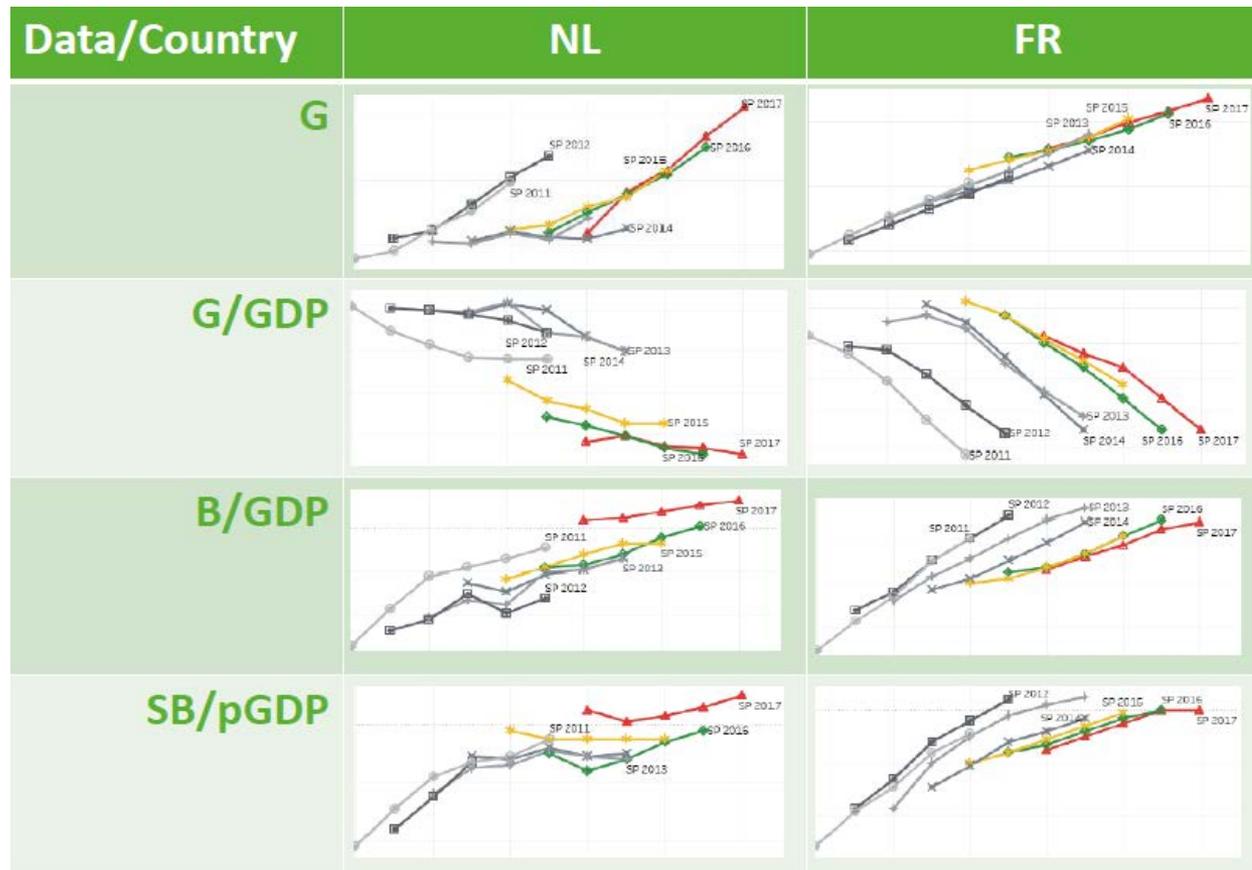
- ✓ Directive proposal (December package, COM/2017/0824)
- ✓ Directive 2011/85/UE: revision by 2018

Ineffectiveness of fiscal rules (1)

2011-2016: evidence of moving targets and slippages in most countries



Ineffectiveness of fiscal rules (2)



Ineffectiveness of fiscal rules

Slippages in both nominal and structural budget balances appear driven by many factors, which are difficult to disentangle

Slippages are not a sign – per se - of weak ownership or bad design of MTBFs

It is necessary to keep separate the debate on fiscal rules and on MTBFs

Definitions

Definitions (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

It is 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

Definitions (2)

Medium Term Fiscal Framework (MTFF)

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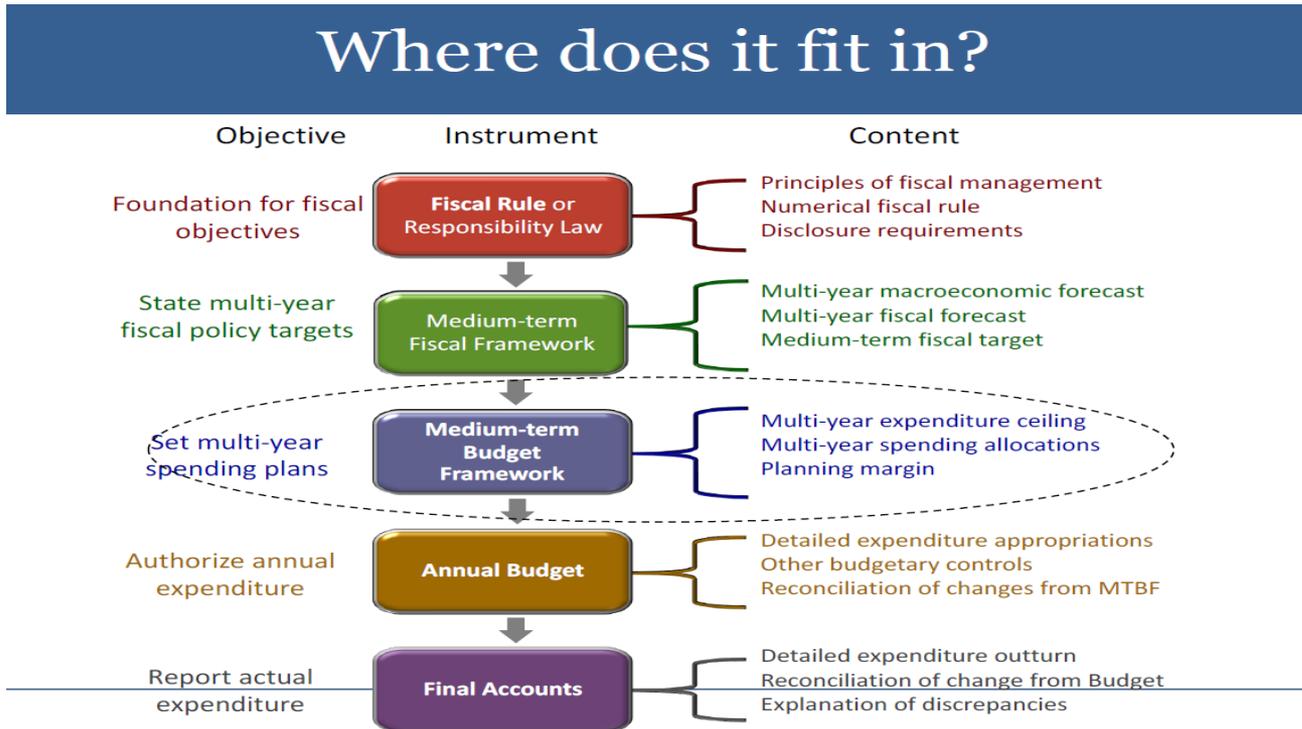
Medium Term Budgetary Framework (MTBF)

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

Definitions (3)



Fonte: Cangiano M. (2017), Presentation at the workshop on Top-Down Budgeting and MTBFs, RGS-Mef, Rome, February 2017.

Definitions (4)

MTBFs are a set of institutional arrangements intended to help governments to make sound fiscal policies

When an MTBF is implemented well, public expenditure is limited by the availability of resources, budget allocations reflect spending priorities and public goods and services are delivered cost-effectively

Not only a tool for promoting fiscal discipline.

Also a set of arrangements for improving allocation, having a budget able to reflect priorities, cultivating high quality budgets

State of play

The EU legislation (1)

EU countries share a common MTF (defined by the SGP and in general by the European Semester) while differ in terms of MTBFs (domestic arrangements for translating the MTF targets into multi-year budgeting)

- ✓ only a few countries have a fully developed proper MTBF, i.e. a framework setting multi-year spending plans as an intermediate step between the MTF and the annual budget

A certain degree of disconnection between MTF at EU level and domestic MTBFs

- ✓ current EU MTF might not be conducive to the implementation of strong MTBFs, because of:
 - the short length of the surveillance horizon (t+1)
 - the instability of targets also due to common methodology
 - the absence of reconciliation procedures or plans for expenditures/revenues

The EU legislation (2)

- Council Directive 85/2011 has been a step forward in the efforts to promote pre-requisites and desirable standards in medium-term fiscal frameworks (MTFF) and medium-term budgetary frameworks (MTBFs) of MS
 - ✓ For example, the Directive introduces the obligation for Member States to have domestic plans for budgetary scenarios consistent with domestic fiscal rules and involving at least a three-year time horizon.
- Some of these provisions were better defined and reinforced by Regulation (EU) 473/2013
 - ✓ For example, it requires MS to adopt a common timeline for national budget procedures, consistent with the EU timeline for fiscal surveillance; macroeconomic endorsement; ecc

In general, practice not fully in line with Code of Conduct

Exp Rules or Exp Benchmark?

EU legislation vs Domestic MTBFs

MTBFs (or domestic expenditure rules or expenditure ceilings) have to ensure consistency between multiannual budget allocations and the supranational medium term fiscal targets

Different perspectives:

- MTBFs (domestic expenditures rules) aim to drive budget preparation in the medium term
- The EU expenditure rule aims to monitor fiscal performance
 - ✓ at the EU level, absent any “freezing” procedure, the so called “expenditure benchmark” would show substantial revisions over the years in case of revisions of potential growth estimates. These revisions could put into question the stability of the multiannual budgetary allocations provided for by the national expenditure rules. As a response to changing targets, domestic MTBF may be changed every year
 - ✓ just for the current and following years

Expenditure benchmark revisions: Italy

EC Spring Forecasts Edition	2010	2011	2012	2013	2014	2015	2016	2017	2018
2011 SF	0.54	0.50	0.50						
2012 SF	0.32	0.21	0.17	0.15					
2013 SF	0.25	0.10	0.04	0.00	-0.04				
2014 SF	0.25	0.10	0.04	-0.01	-0.05	-0.02			
2015 SF	0.15	-0.03	-0.13	-0.22	-0.27	-0.23	-0.13		
2016 SF	0.15	-0.06	-0.17	-0.28	-0.35	-0.33	-0.23	-0.12	
2017 SF	0.13	-0.02	-0.12	-0.23	-0.31	-0.30	-0.22	-0.13	-0.08

The new proposal (December package)

Recent Commission proposal for a Council Directive laying down provisions for strengthening fiscal responsibility and the medium-term budgetary orientation in the Member States

- mainly an attempt to provide common guidelines to strengthen domestic MTFs
- The envisaged new framework solves some of the presented problems and eases the relationship between MTF and MTBF. It helps the design of a good MTBF

Unfortunately it falls short of introducing crucial elements that should characterise MTBFs

The way forward

The way forward (1)

- Internalize the difference and the relationship between MTFFs and MTBFs

Make clear that MTFFs need to be conducive to effective MTBFs

- ✓ If the EU surveillance framework remains unchanged, any attempt to reinforce medium-term budgetary orientation at the domestic level would necessarily have to take into account the short-term orientation of the current EU fiscal governance

The way forward (2)

MTBFs actual design varies considerably across countries. There is no single way to do it.

However possible to identify preconditions and key factors

IFI MTBF-WG would like to identify a toolbox of desirable qualitative features to be used for developing and assessing domestic MTBFs

- ✓ Top-down approach
- ✓ Expenditure-based operational targets based on transparent forecasts
- ✓ progressive disaggregation from aggregate exp to individual policies
- ✓ transparent reconciliation practices (general government-State budget; State budget-subnational; accounting criteria)

Do they work? Conclusions

- Independent Fiscal Institutions can play an important role in using the toolbox and assessing the quality of domestic frameworks
- The issue of political commitment remains crucial, along with the related issue of reputational cost
 - ✓ In some institutional contexts, the government or the parliament generally refrain from changing plans previously set. In other not...
 - ✓ This also points, again, to the issue that exporting successful arrangements in different cultural and political contexts, i.e. where reputational cost is low, might be challenging

Thank you for your attention

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