Budget Institutions in G-20 Countries

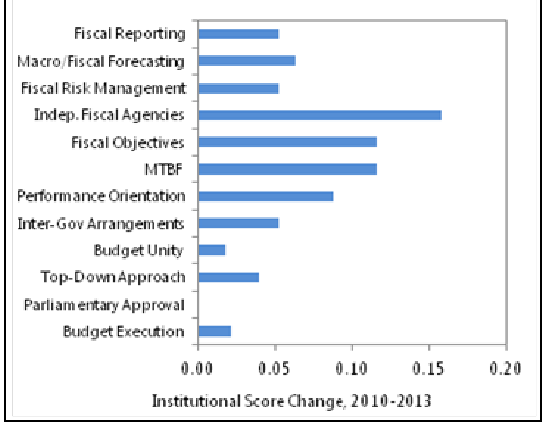
The recent crisis left many G-20 countries with significant long-term fiscal consolidation needs. A recent IMF paper[1] assessed the strength of G-20 countries' budget institutions that can help to maintain fiscal control and bring about fiscal adjustment, where needed. The paper looked at 12 budget institutions that have been shown to support successful fiscal consolidations and examined progress in strengthening these institutions between 2010-2013. The paper also examined the relationship between the strength of institutions and G-20 countries' post-crisis fiscal performance and made recommendations for further institutional reform.

The great recession seemed to spur a wave of reforms aimed at strengthening institutional frameworks. This has been especially evident among advanced countries in Europe, contributing to a growing gap in institutional strength between advanced and emerging G-20 countries. In particular, budget institutions related to fiscal disclosure and policymaking are generally stronger in advanced than in emerging G-20 countries (Figure 1).

Figure 1. Institutional Strength in 2013

Reforms in advanced and emerging countries have tended to focus on different areas. Advanced countries' reforms focused mostly on establishing or strengthening fiscal councils, adopting fiscal rules, and developing medium-term budget frameworks. Emerging markets have led the way in some other areas, including by improving fiscal risk management and introducing performance-based budgeting. Less progress has been made in strengthening the institutions that ensure fiscal transparency or support fiscal policy implementation (Figure 2).

Figure 2. Trends in Institutional Reform Since 2010



G-20 countries with stronger budget institutions overall have tended to plan and deliver more fiscal adjustment since 2010. Countries with more comprehensive fiscal reporting, forecasting, and risk disclosure seemed to have better understood their post-crisis fiscal position and prospects. Those with more credible medium-term frameworks, performance budgeting, and intergovernmental fiscal arrangements were faster to announce their adjustment plans and better

[1] IMF, 2014, "Budget Institutions in G-20 Countries: An Update" (SM/14/80). A set of institutional reform recommendations for each G-20 country was also provided in a supplement to the main paper "Budget Institutions in G-20 Countries: Country Evaluations" (SM/14/80, Sup 1).

at protecting public investment within those plans. Countries with more unified and disciplined budget processes also tended to implement those plans more effectively.

Despite recent progress, significant weaknesses remain in budget institutions across G-20 countries and Table 1 summarizes the main institutional reform priorities for advanced and emerging countries. Examples of priority reforms include the need for both advanced and emerging market countries to widen their coverage of fiscal statistics and accounts and improve fiscal risk management capacity to enhance their understanding of their fiscal position and future prospects. Emerging markets should also improve their macro-fiscal forecasting capacity for the same reason. In addition, recent progress in underpinning fiscal strategies through the establishment of comprehensive medium-term fiscal and budgetary frameworks, could be further enhanced in both advanced and emerging market countries by ensuring that fiscal rules accommodate the business cycle and the introduction of binding medium-term restrictions over aggregate expenditure. Emerging markets should also prioritize the introduction of sectoral spending reviews to improve the efficiency and effectiveness of resource allocation through the budget process.

G-20 countries interested in strengthening their fiscal institutions can avail of a number of diagnostic tools recently developed by the IMF to help identify their institutional strengths and weaknesses and develop their fiscal management capacity. Of particular relevance are the:

- Fiscal Transparency Evaluation (FTE) which assesses countries' fiscal reporting, forecasting, and risk management practices against the standards set by the recently revised Fiscal Transparency Code;
- Tax Administration Diagnostic Assessment Tool (TADAT) developed with donor support and to be fully launched in 2015, which provides standardized performance assessments of country tax administration systems; and
- Revenue Administration Fiscal Information Tool (RA-FIT), a database which helps countries sharpen their focus on revenue administration performance, measure progress over time and make cross-country comparisons.

Table 1. Strengthening G-20 Budget Institutions: Main Reform Themes

INSTITUTION	RECOMMENDATION	
	Advanced G-20 Countries	Emerging G-20 Countries
a. Understanding the Fiscal Challenge		
Fiscal reporting	Extend the coverage of fiscal statistics and accounts to cover the public sector.	Extend the coverage of fiscal statistics to cover general government and in the long run the public sector. Establish independent agencies producing fiscal statistics following international guidelines.
Macro-fiscal forecasting		Develop a mid-year forecast update and an ex-post comparison of previous forecasts and outturn. Produce long-term fiscal projections.
Fiscal risk management	Improve reporting on specific fiscal risks including contingent liabilities and financial asset holdings.	Expand the analysis of fiscal risks including through analyzing the fiscal implications of alternative macroeconomic forecasts.
Independent fiscal agency		Establish independent fiscal agencies to evaluate fiscal performance, and to assess or, where appropriate, produce the official macroeconomic and fiscal forecasts.
b. Developing a Credible Adjustment Plan		
Fiscal objectives & rules	Establish fiscal rules which accommodate the business cycle and include transparent and credible escape clauses.	
Medium-term budget framework	Establish binding multi-year restrictions on aggregate expenditure which cover the bulk of discretionary central government expenditure.	Set out medium-term sectoral priorities for expenditure. Separately identify the fiscal impact of current and new policies.
Performance orientation		Introduce comprehensive reviews of sectoral spending allocations on a regular basis.
Intergovernmental financial arrangements	Strengthen coordination mechanisms between different levels of government to support the enforcement of fiscal rules.	Ensure that fiscal objectives encompass all levels of government. Extend medium-term general government projections to include an explanation of the contribution of each layer of government to the government fiscal targets.
c. Implementing the Adjustment Plan		
Budget unity	Ensure the annual budget covers all of central government. Mandatory and earmarked expenditure should be reviewed on a regular basis with respect to their effectiveness and long-term sustainability.	
Top-down budgeting	Ensure that all revenue and expenditure decisions are taken as part of the annual budget preparation process within the executive.	
Parliamentary approval	Ensure that the annual budget is approved by Parliament in a top-down sequence. Introduce (self-imposed) limits on the legislature's right to amend the government's draft budget.	Ensure that the annual budget is approved by Parliament in a top-down sequence. Introduce a budget debate allowing legislators to endorse the government's fiscal strategy. Introduce (self-imposed) limits on the legislature's right to amend the government's draft budget.
Budget execution	Introduce robust and credible restrictions on overspending during the budget execution stage, including firmer controls over multi-year commitments.	