



## **Results of the Pre-Meeting BCoP Thematic Survey on the PEMPAL Countries' Experience and Issues:**

### **Fiscal Consolidation and Fiscal Risks**

BCoP Resource Team  
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Armenia



- Survey prepared by BCoP Resource Team (including Zac Mills), broadly based on the template of the OECD surveys on fiscal consolidation and fiscal risks. Sent out electronically in December. The Survey was accompanied by the *Brief on Basic Definitions*, with the aim to ensure same understanding by respondents.
- 13 PEMPAL countries responded to survey.



- Please note that this survey (as is the case with all of BCoP pre-plenary thematic surveys), is a simple express survey, based on countries' self-assessment, and that the results have not been subject to verification and data cleaning process.
- The survey was broadly based on the OECD templates, with the hope of comparability of some results with the OECD countries. However, most of the PEMPAL countries were not able to answer all of the questions requiring quantification, which may imply that measures were not quantified by the countries after adoption, but it also may be due to short time available to answer the survey and/or terminology differences.
- **Thus, the results of this survey should be taken with caution, but they are hopefully still useful to understand general trends and challenges in fiscal consolidation in PEMPAL countries.**

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Survey consisted of 27 questions, organized in the following sections:

1. Plans/Measures for Fiscal Consolidation
2. Data on Fiscal Consolidation/Measures
3. Budgetary Institutional Framework
4. Fiscal Risks
5. Conclusion

**Thank You to all who filled out this survey from the Resource Team!**

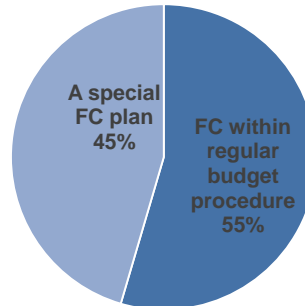
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## Have Countries Implemented Fiscal Consolidation (FC) Measures and in What Format?

Based on countries' responses, *only one out of 13 countries has not implemented FC (Moldova).*

*Over half of the countries which responded adopted FC measures within the regular annual budget adoption procedures,*



*rather than as a separate FC plan (Belarus, Croatia, Russia, Georgia, Serbia and Tajikistan have FC plans).* <sup>5</sup>



## FC targets and measures

*All but one country* which responded to the question states that the **FC measures/plan had a target** – 8 out of 10 countries had a deficit target, 4 of which also had a debt target (Croatia, Kyrgyz R., Serbia and Tajikistan).

Next two slides show different types of measures implemented in the countries which answered the question about specific types of adopted FC measures. *Most use expenditure-side measures in the area of wage bill* (10 countries used some type of wage bill measure) and good and services (9 countries). Revenue-side measures in taxation area were also extensively used (13 countries).

Note that in addition to the concrete measures mentioned in the next two slides, several countries also listed overall efforts in terms of increasing tax administration efficiency and effectiveness and broadening tax base, as well as efforts in improving business environment.

	Belarus	Bosnia and H.	Croatia	Montenegro	Serbia	Russia	Tajikistan	Ukraine	Uzbekistan	Count per measure
<b>Aggregate expenditure categories</b>										<b>4</b>
Low priority expenditure	x									1
Reduction in all expenditure except for social and liabilities						x				1
All current expenditure							x			1
All discretionary costs				x						1
<b>Wage bill</b>										<b>10</b>
Salary		x		x	x	x				4
Housing allowance		x								1
Hot meal allowance		x								1
Salary increases for years of service			x							1
Number of employees						x		x	x	3
<b>Pension costs</b>										<b>2</b>
<b>Goods and services</b>										<b>10</b>
Total goods and services		x			x					2
Maintenance			x					x		2
Contracted services			x							1
Utilities		x	x							2
Travel expenditure/per diems		x	x	x						3
<b>Capital expenditure</b>	x	x	x			x	x			<b>5</b>
<b>Subsidies</b>			x							<b>1</b>
<b>Health-care cost rationalization</b>			x							<b>1</b>
<b>SOE expenditure</b>				x						<b>1</b>
<b>Public debt</b>						x	x	x		<b>3</b>
Count per expenditure measure per country	2	7	8	5	3	5	3	3	1	

	Belarus	Bosnia and H.	Croatia	Montenegro	Serbia	Russia	Tajikistan	Ukraine	Uzbekistan	Count per measure
<b>Taxes</b>										<b>13</b>
Personal income tax	x									1
Corporate income tax	x					x				2
Taxation on gains from games of chance			x							1
Saving interest tax			x							1
"Crisis" tax				x						1
VAT				x						1
Property/land/real estate tax	x		x							2
Oil-related tax/fee	x					x				2
Excises			x			x				2
<b>Dividends from SOE</b>	x		x							<b>2</b>
<b>Pension contributions/funds</b>			x			x		x		<b>3</b>
<b>Concessions</b>			x							<b>1</b>
<b>Health contributions</b>			x							<b>1</b>
<i>SIM card charge, charge on energy meters, cable TV and smoking zones</i>				x						1
Count per revenue measure per country	5	0	8	3	0	4	0	1	0	



## Shielding economic growth during FC, role of Parliament in FC measure adoption, and reallocation of resources based on priority level

**Measures to shield economic growth during FC:** *Belarus* redirects funds to social benefits and compensates interest on bank loans, *Bosnia and Herzegovina* redirects funds towards capital investment, while *Russia* has a detailed system through rules, which included the Reserve Fund (to substitute underperformance of non-oil revenues and deficit funding) and Crisis Fund (for additional measures for supporting economy and protecting the socially vulnerable categories).

In *all* countries, **Parliament adopts the FC measures/plans.**

*Russia, Kyrgyz R. and Uzbekistan* are the only countries to note that **there are special mechanisms to reallocate resources from lower to higher priority** within the overall FC plan/measures.

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## Long-term fiscal issues within FC, inclusion of sub-national government levels in FC

Only *Russia* reported it has a FC plan which include policies to address **long-term fiscal issues** (retirement/working age population share by 2030).

10 out of 12 countries (all except Armenia and Belarus), **FC plan/measures also include sub-national government levels.**

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## FC Tools: Spending Reviews

Most countries report that they used Spending Reviews.

	Spending review, undertaken by MoF	Analyses (not a full spending review), undertaken by MoF	Spending review, undertaken by external experts	Other, please describe
Armenia	x			
Belarus	x			
Bosna i Hercegovina		x		
Croatia		x		Also, in-depth Expenditures Analysis is currently undergoing, implemented by the MF and external experts.
Georgia	x			
Kyrgyz Republi	x			
Montenegro	x			
Republika Srbija		x		
RF	x			
Tajikistan	x			
Ukraine		x		
Uzbekistan	x			
	8	4	0	1

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## Volume of FC in 2009-2015

Only 6 countries provided estimates of volume of FC expressed as a share in GDP – Kyrgyz R. and Belarus report above 15% of GDP cumulative FC measures in 2009-2015, Tajikistan around 10% of GDP, Russia around 8% of GDP, Ukraine around 5% and Croatia around 3.3%.

**Composition of FC in terms of revenue and expenditure measures** was reported only by *Croatia* (on average for all reported years around 1/3 revenue and 2/3 expenditure), *Russia* (large variation depending on a year, on average equally distributed between revenue and expenditure measures), and *Ukraine* (46% revenue and 54% expenditure).

**Composition of FC in terms of government level** was not fully reported by any of the countries and only Russia and Ukraine were able to report on composition of FC broken in more detail by each economic category of expenditures and revenue type.

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## Institutional Budget Framework Changes

Most frequent institutional changes since 2008 were in regards to fiscal rules (9 out of 10 countries), performance and results (7) and legal basis for budget framework (7).

	Belarus	Croatia	Georgia	Kyrgyz R	Moldova	Monte-negro	Russia	Taji-kistan	Ukraine	Uzbe-kistan	Count per change
Long term projections							x	x		x	3
Economic forecasts		x					x	x		x	4
Fiscal rules	x	x	x		x	x	x	x	x	x	9
MTEFs		x		x			x	x	x	x	6
Expenditure ceilings/forecasts		x		x			x			x	4
Top-down budgeting		x		x						x	3
Performance and results	x	x		x	x		x		x	x	7
Budget approval process		x				x	x	x		x	5
Budget execution practices		x					x	x		x	4
Legal basis of the framework	x	x		x	x			x	x	x	7
Count per country	3	9	1	5	3	2	8	7	4	10	

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## Fiscal risks

In terms of **fiscal risks**, the types indicated to be the *most relevant for majority of the countries* are:

1. Pension funds (8 countries find it relevant or highly relevant)
2. Economic forecast errors (7 countries)
3. Budgetary forecast errors (6 countries)
4. Pro-cyclical fiscal policy (5 countries)
5. Banking/financial sectors risks (5 countries)
6. Legal claims (5 countries)

*Only few countries* have adopted **fiscal risk mitigation policies** (mostly in the areas of independent assessment of fiscal risks by independent fiscal institutions – 6 countries and fiscal rules – 5 countries) in the past decade, and out of those, even fewer have been assessed as effective or highly effective (around half for both independent assessment of fiscal risks by independent fiscal institutions and for fiscal risks).

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## **Challenges in FC, as Identified by the Countries in the Survey**

- The lack of adequate forecasts of the parameters of socio-economic development, which makes budget planning difficult.
- The most important risk for reaching the fiscal policy goals (balance and debt) is related to actual trends of macroeconomic variables, which both decrease revenues and increase costs of social benefits.
- Slow implementation of structural reforms needed for fiscal sustainability.
- Risks associated with SOEs (potential liabilities, subsidies, restructuring...)

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## **Challenges in FC, as Identified by the Countries in the Survey**

- Risk associated with exchange rate fluctuations.
- Increasing costs of borrowing and public debt levels, which in turn increase repayment obligations.
- Defining and enforcing fiscal rules and FC measures for subnational level.
- Lack of automatic stabilizers.
- Creation of truly independent and credible fiscal institutions.

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## **Challenges in FC, as Identified by the Countries in the Survey**

- Adoption of counter-cyclical fiscal policy.
- Increasing efficiency of tax administration and broadening tax base.
- Lack of mechanisms to quickly react in the time of crisis in order to reallocate resources from low priorities to high priorities.
- Using performance indicators to identify the best FC areas.
- Defining and enforcing fiscal rules and FC measures for subnational level.

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**THANK YOU FOR YOUR ATTENTION!**