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Budget reform in CESEE countries

Two priorities for the coming years in the light of progress achieved

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Measuring progress of institutional PMF reform in CESEE countries

Data collection (and scoring of institutions)

- PEF assessments
- OECD budget reviews
- IMF working papers
 - Tandberg and Pavesic Skerlep (2008), only SEE
 - Olden, Last, Ylaoutinen, Sateriale (2012), only SEE
- Independent research
 - Darvas and Kostyleva (2011)
 - Bole, Gaspari, Maver (2014), only SEE



Measuring progress of institutional PMF reform in CESEE countries

Aim of research

- Measuring progress over time (Bole e.a.)
- Relate quality of institutions to fiscal performance (Darvas and Kostyleva)
- Identification of bottlenecks for better fiscal performance and recommendations (IMF working papers)



Background of my remarks

- There is robust evidence for relation between quality of institutions and fiscal performance (studies by Von Hagen, Hallerberg, et al.).
- Not all institutions are equally important for good fiscal performance.
- Discussion is possible about what is “basic”; I am not addressing this question here, but just make some remarks about two reforms that I see as basic.



Focus of my remarks

- My remarks mostly concern SEE countries, that belong to my current remit; still they may be relevant to other CESEE countries.
- The two reforms that I shall address and that are still not fully implemented in many (CE)SEE countries, namely:
 1. Program classification of the budget, as a prerequisite for expenditure assessment in the light of results;
 2. Separation between baselines and ceilings.



Best practice guidelines for program classification

- Keep administrative expenditures apart from program expenditures.
- Administrative expenditures are operational expenditures (compensation of employees and intermediate consumption) for administration (as opposed to operational expenditures for service delivery in kind as well as to transfers, social benefits, subsidies, gross capital information, property income).
- Limit the number of programs per ministry to 5-10.



Program classification of a line ministry

Line items	Ministry I	2014 (provisional results)	2015 (budget year)	2016	2017	2018
	Program budget					
1	Program 1					
2	Program 2					
3	Program 3					
4	Etc.					
	<i>Total programmatic expenditure</i>					
	Administrative budget					
5	Core ministry					
6	Administrative agency 1					
7	Administrative agency 2					
8	Etc.					
	<i>Total administrative expenditure</i>					
	Total					



Baseline estimates and ceilings

Main differences:

1. Ceilings are normative (political), baseline estimates are empirical (technical).
2. Ceilings are aggregates (general government, central government, ministries, social security funds), baseline estimates are line item estimates.



Base line estimates

Definition: Future costs of current policy

Current policy includes:

- Current law;
- Government decisions to change the law;
- Current government expenditure policy (not requiring legislation);
- Government decisions to change expenditure policy (not requiring legislation).



Best practice guidelines baselines

- Put baseline estimates for future years in the body of the budget law; they are essential for the assessment of the appropriations for the budget year.
- Update at least three times a year:
 - before decision about the ceilings (expenditure framework);
 - before start of budget preparation;
 - after budget preparation.
- First update should start from $t+1$ estimates of previous budget.
- Check baselines against ceilings at any occasion that they are updated and ensure compensation if ceilings are exceeded (budgetary discipline).



Final message

- Make distinction between basic and advanced reforms, both in institutional policy and in evaluation of institutional policy.
- To basics belong in any case: complete coverage of the budget, consolidated Treasury Single Account, spending and commitment controls, binding ceilings, program classification and reliable baselines.
- Basics first!