



# Spending Better

**TOKYO FISCAL FORUM**

**JUNE 6, 2024**

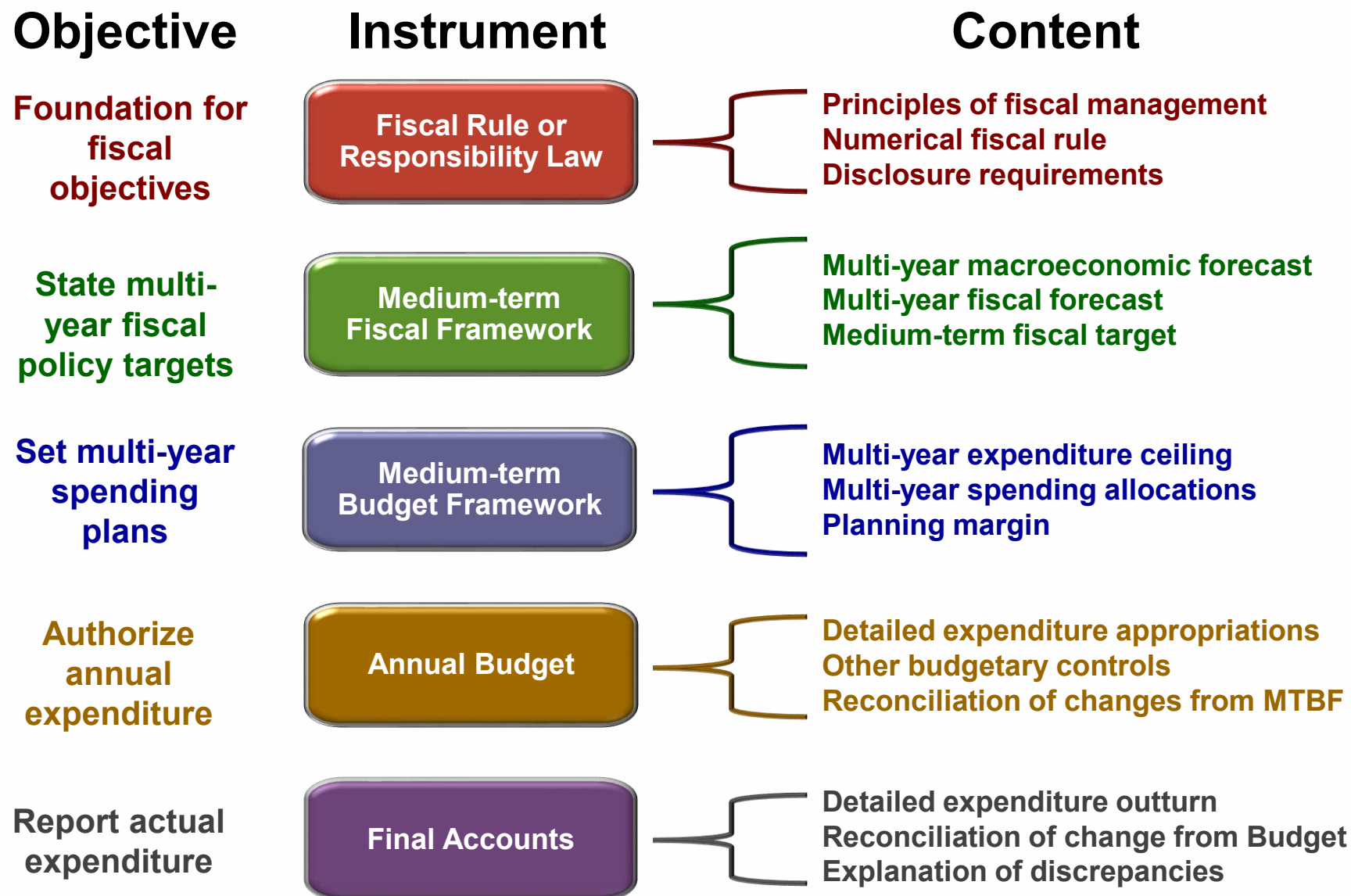
Sailendra Pattanayak, Deputy Division Chief  
Fiscal Affairs Department

THE VIEWS EXPRESSED IN THIS PRESENTATION ARE THOSE OF THE AUTHOR AND DO NOT  
NECESSARILY REPRESENT THOSE OF THE IMF, ITS EXECUTIVE BOARD OR ITS MANAGEMENT.

# Spending better: What are the key questions to consider?



# Spending better: What are the key instruments?



# Objective 1. Ensuring fiscal sustainability

## Fiscal Rules for Sustainable Fiscal Policies

Type of Rule	Accounting Requirements	Accounting Risks	Other Risks
Golden Rule	Separate current & capital budgets	Misclassification of expenditure	GDP revisions  Local government  State-owned enterprises  Extrabudgetary funds  Public-private boundary
Expenditure Rule	All expenditure on a gross basis	Inflation variations, windfalls, tax expenditures	
Structural Surplus Rule	Cyclical adjustment methodology	Overestimating trend GDP growth	
Debt Rule	Comprehensive survey of liabilities	PFI, contingent liabilities, exchange rates	
Net Worth Target	Accrual accounting	Valuation effects, discount factors	

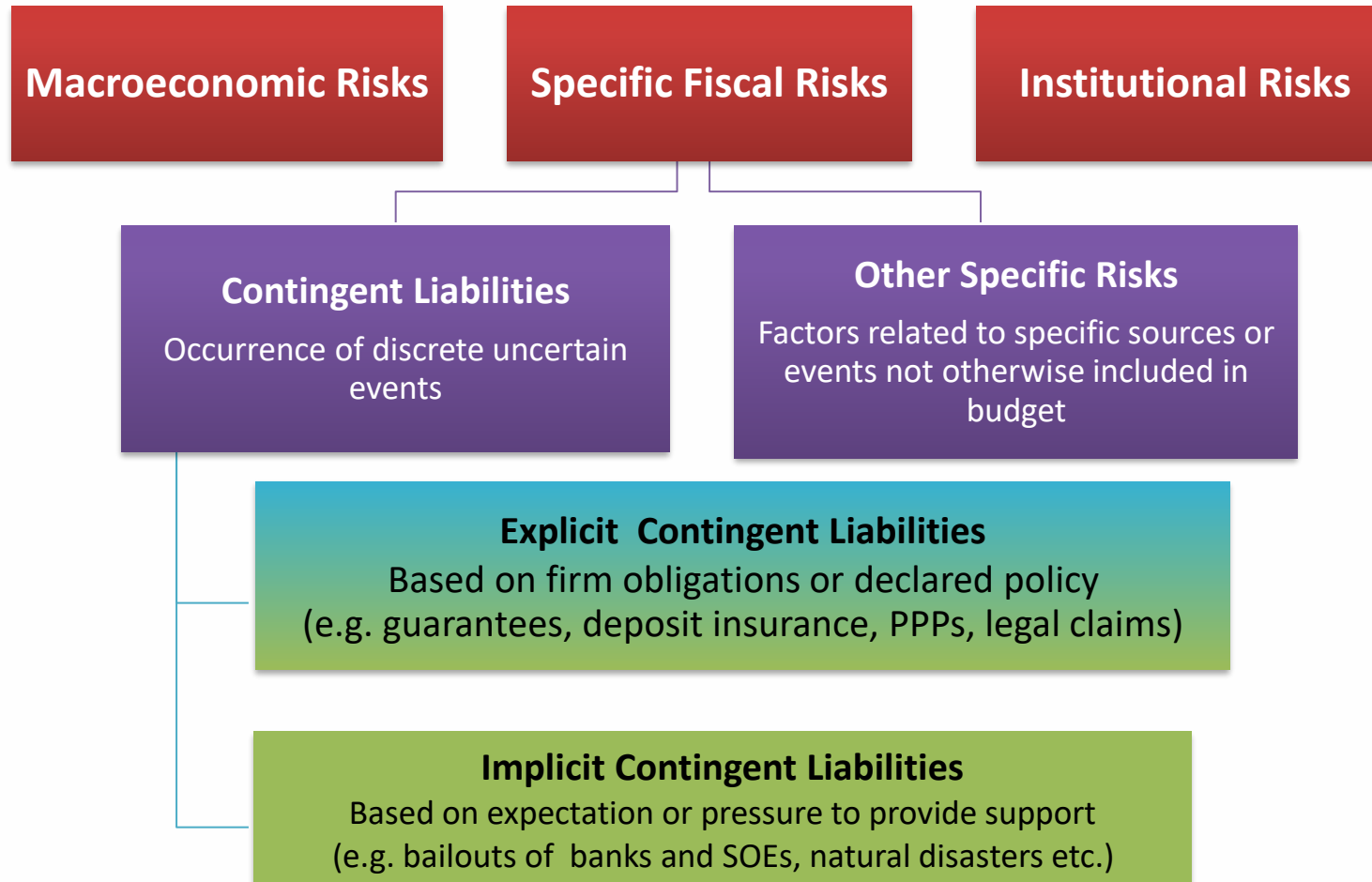
# Implementing Fiscal Rules: Issues for Consideration

OBJECTIVES	LESSONS FROM EXPERIENCE	ISSUES FOR CONSIDERATION
<b>Flexibility</b>	<b>Inflexible rules need flexible budgetary frameworks</b>	<ul style="list-style-type: none"> <li>• How much headroom against the rule itself?</li> <li>• How big a contingency margin in spending projections?</li> <li>• Can earmarking of revenue be reduced?</li> <li>• How much flexibility to give to line ministries?</li> </ul>
<b>Transparency</b>	<b>Need a clear line of sight from fiscal rules to expenditure plans down to budgetary controls</b>	<ul style="list-style-type: none"> <li>• What fiscal aggregates to target?</li> <li>• Can fiscal rule be easily translated into an expenditure path?</li> <li>• Does monthly reporting give a clear picture of performance?</li> </ul>
<b>Planning</b>	<b>Trade-off between discipline, coverage and detail in MTBF design</b>	<ul style="list-style-type: none"> <li>• Can number of sectors be consolidated?</li> <li>• Which sectoral projections could become multi-year ceilings?</li> <li>• Should coverage of MTBF be expanded?</li> <li>• How can accuracy of costing and forecasting be improved?</li> </ul>
<b>Discipline</b>	<b>Rule is only as good as government's commitment to uphold it</b>	<ul style="list-style-type: none"> <li>• Are ministries prevented from making unfunded promises?</li> <li>• Is there a single, comprehensive and definitive process for prioritizing expenditure requests?</li> <li>• Is there information to publish a comprehensive reconciliation from budget to budget?</li> </ul>

# Objective 2. Managing fiscal risks

## What are fiscal risks?

**Fiscal Risks** are factors that may cause fiscal outcomes to differ from forecasts or expectations.



# Fiscal Risks – Stylized Facts

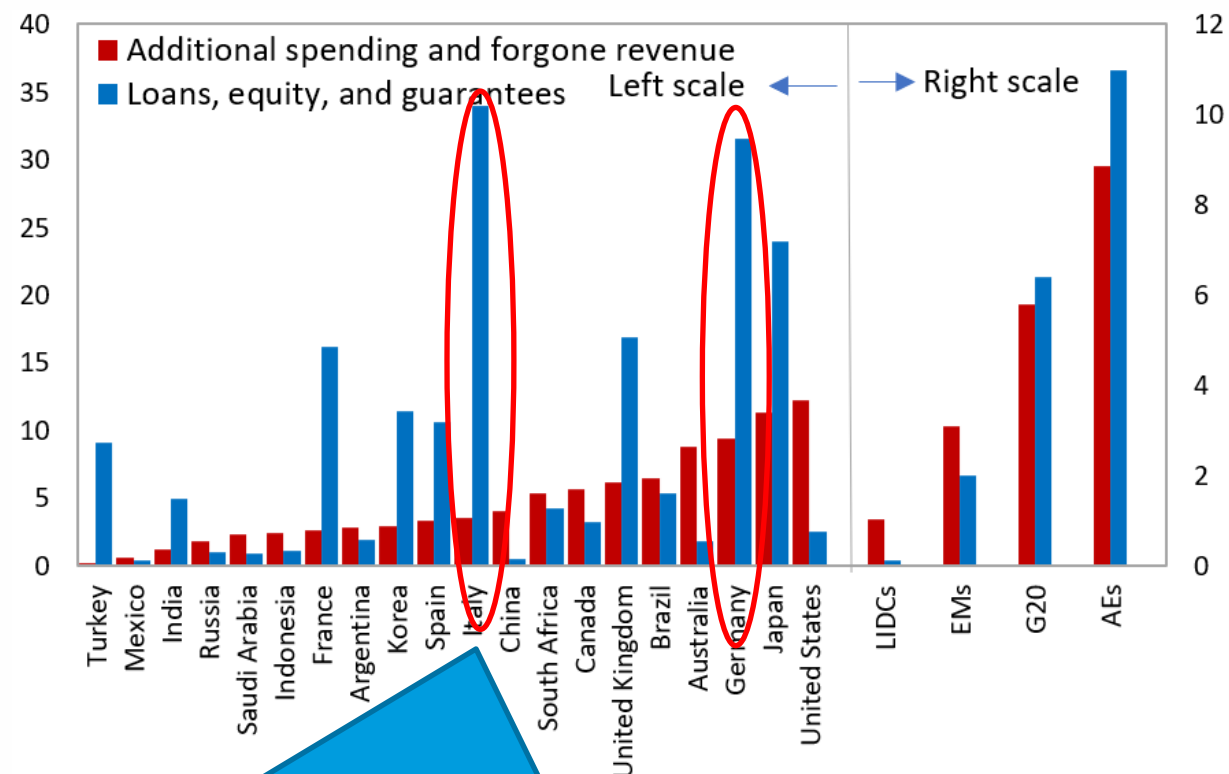
- **Fiscal risks can have a major impact.** On average, fiscal costs because of only macroeconomic shocks average 9 percent of GDP and happen once every 12 years (Bova, 2016).
- **Fiscal risks are correlated.** One fiscal risk realization (e.g. recession, exchange rate depreciation, financial sector crisis) can trigger other events leading to a cascade of fiscal risks materializing.
- **The impact of fiscal shocks are often non-linear.** Larger macroeconomic shocks tend to be proportionately more damaging than smaller shocks.

# Identifying and analyzing fiscal risks

## Example: Contingent liabilities and guarantees

- **Traditionally, not reflected in government accounts.** Guarantees do not involve any upfront cash outflow from the budget at the time of issuance, but they expose the government to a risk of future cash outflows.
- **Risk of considering guarantees as 'free'.** They involve no additional immediate cost, giving the impression that they are low risk and inexpensive
- **Guarantees are often correlated to other risks.** Guarantees tend to be called just when the fiscal position is deteriorating because of other reasons.

Country Fiscal Measures in Response to the COVID-19 Pandemic  
(Percent of GDP), Source: IMF June 2020

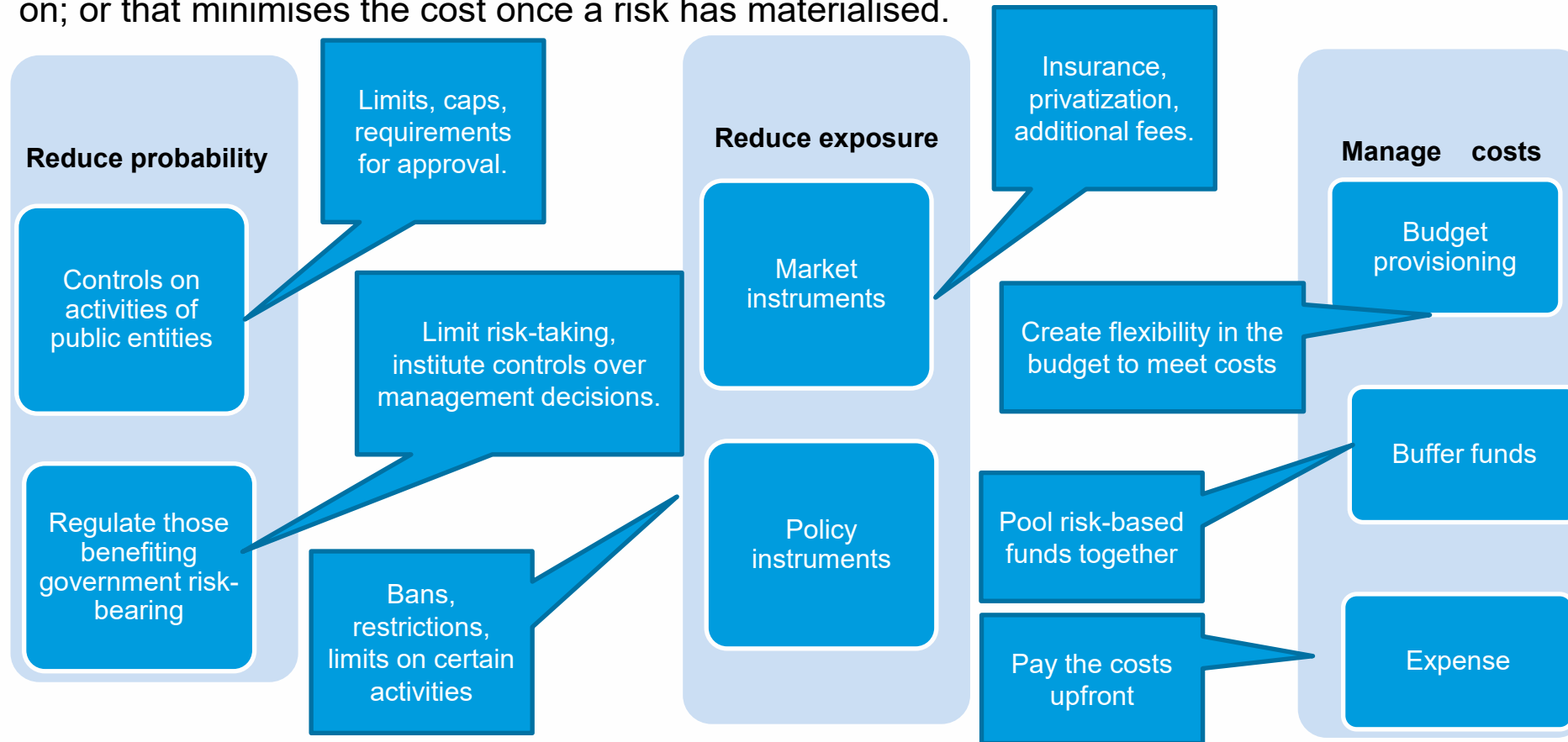


Many countries made significant use of non-expenditure measures to support their economies; including loans, equity, and guarantees



# Mitigating Fiscal Risks

**Risk mitigation:** an action that reduces potential fiscal risks before they materialise or are taken on; or that minimises the cost once a risk has materialised.

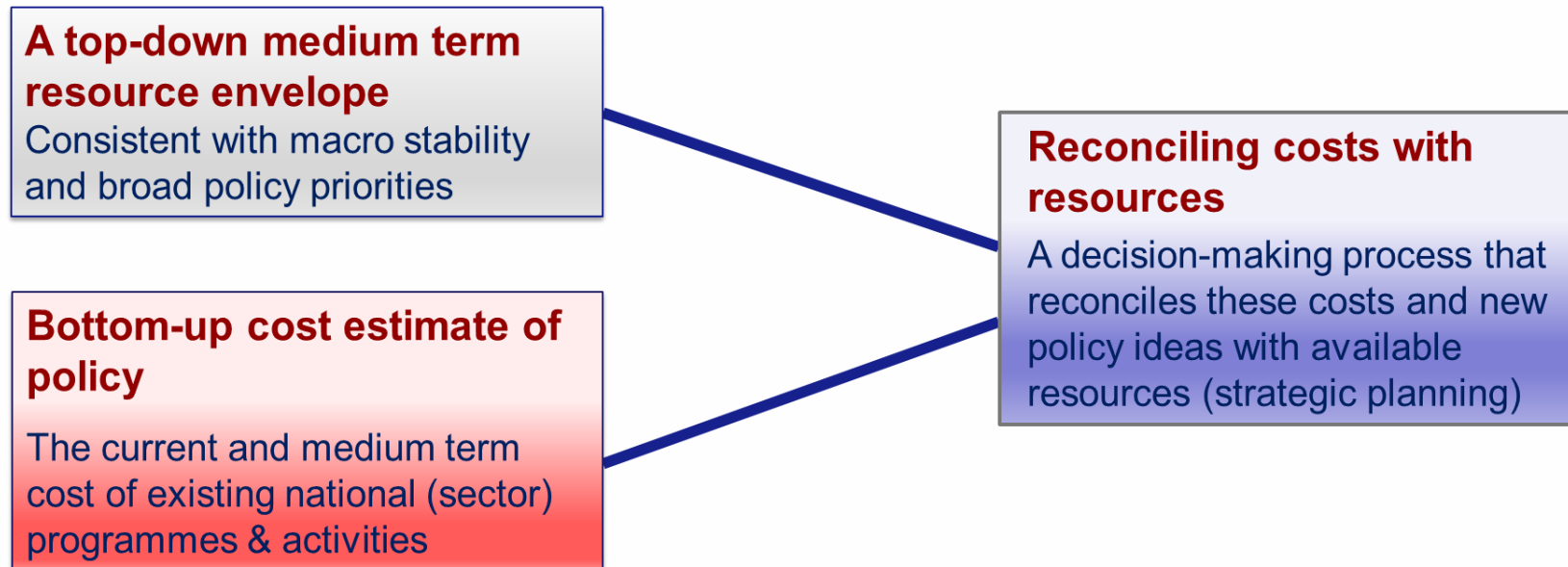


**Risk mitigating measures can be combined.** For example, the government could limit the number of SOEs, set limits on guarantees, and cap the total borrowing of each SOE.

# Objective 3. Enhancing expenditure efficiency

## MTBFs and Performance Orientation for allocative efficiency

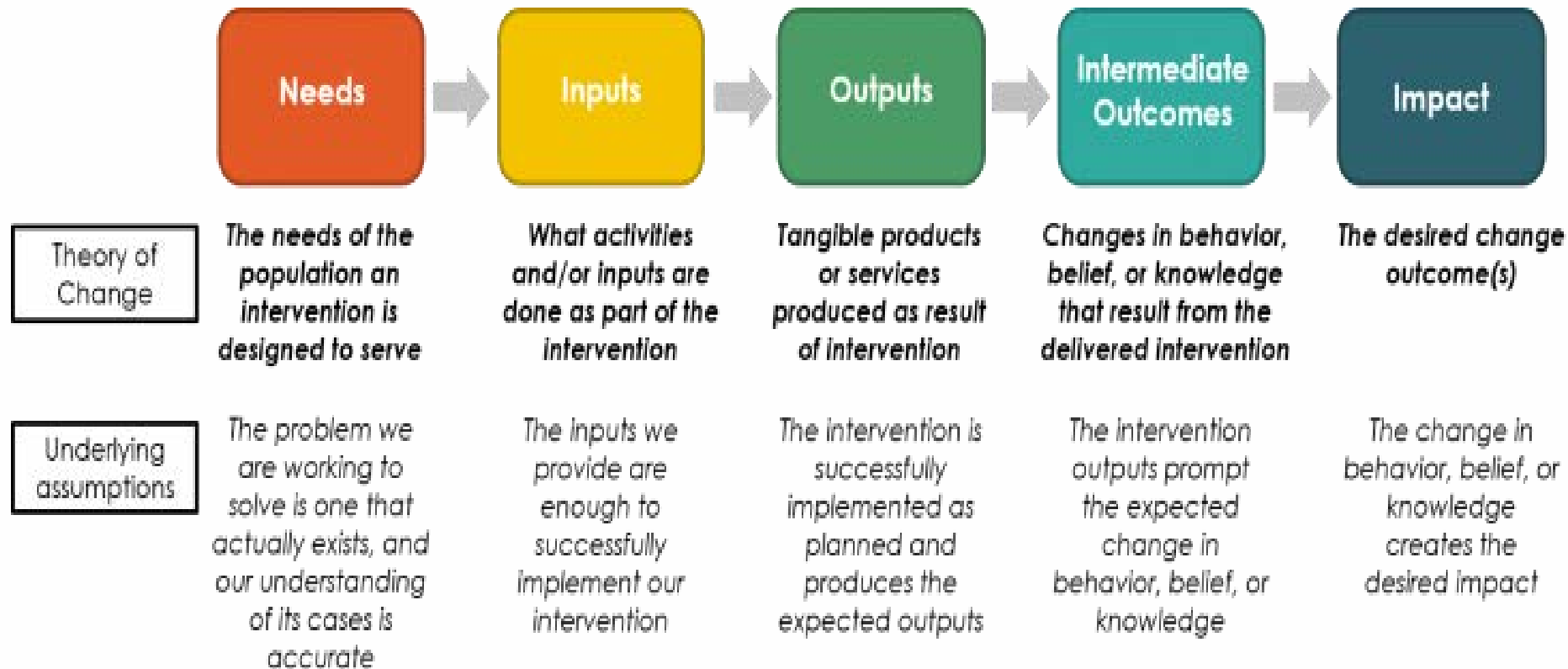
**Strategic Budgeting and MTBF** - Coordinated top-down and bottom-up budgeting, Ministry/Agency expenditure ceilings, Ministry/Agency spending plans reflect medium-term strategic priorities



**Performance orientation** - Focused on producing outputs and achieving outcomes, Systematic use of indicator-based performance information, Funding/budget allocations/ceilings informed by outcomes

**But right incentive structure and cost estimation methodologies are key to success of these approaches**

# Designing Performance Orientation and Intervention Methodologies



Source: J-Pal

# Objective 3. Enhancing expenditure efficiency

## Spending Reviews

**Spending reviews:** In-depth analysis of existing public expenditures to identify options for one or more of the following objectives:

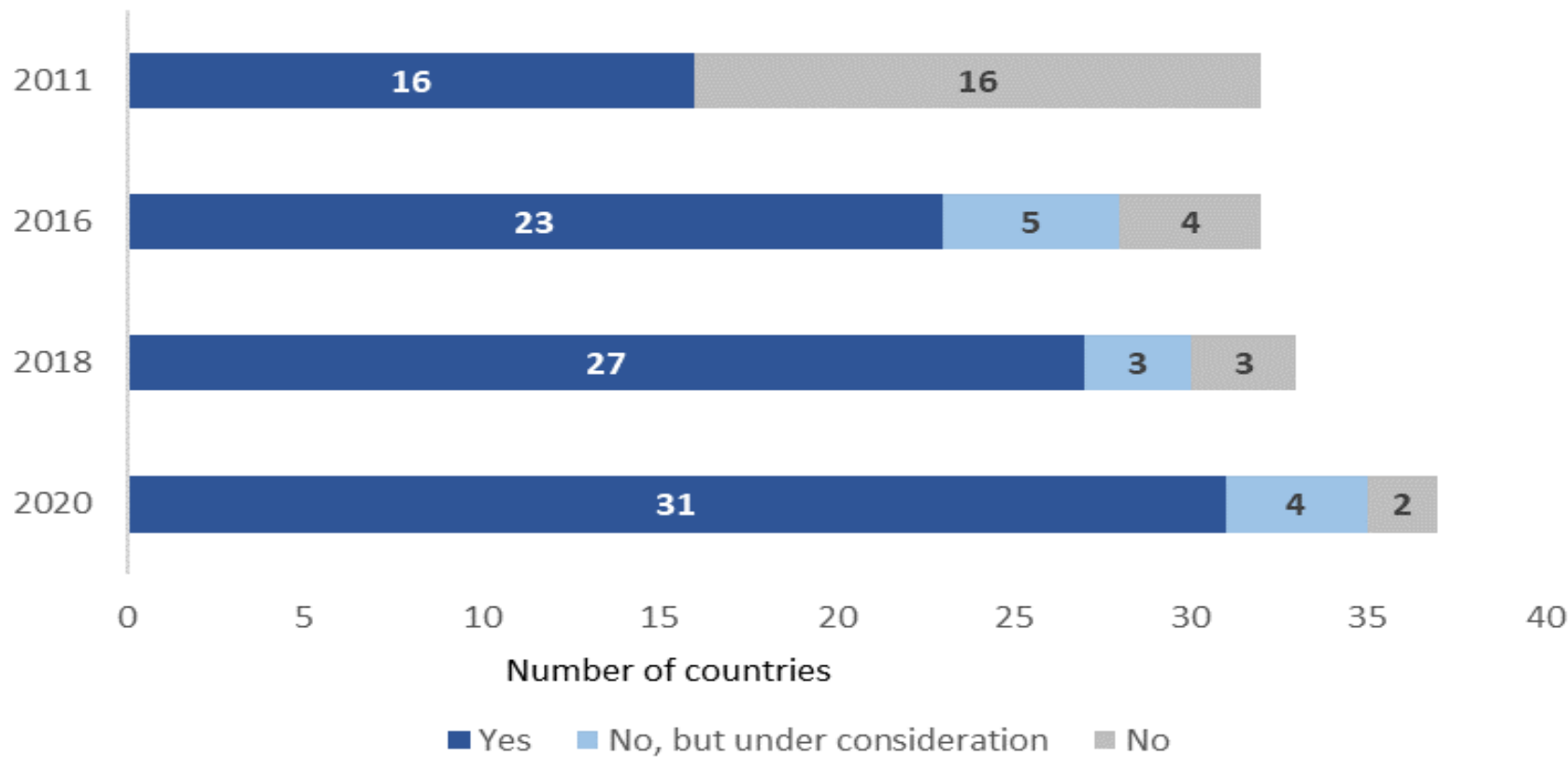
- **Reprioritization.** Reducing or redirecting expenditures from low priority, inefficient or ineffective spending
- **Fiscal consolidation.** Reduce the growth or level of public expenditure
- **Create fiscal space.** Make room for priority new spending within a sector
- **Value for money.** Identify inefficiencies to decrease costs for the same services

### Two broad approaches...no single model

Comprehensive	Targeted	Blended
Unconstrained search for the best savings options. Not limited to any pre-defined list of review topics. Can cover <b>20 to 100 percent</b> of expenditure.	Limited to a number of pre-defined review topics. E.g. Social Assistance, ICT operations, waste management.	Comprehensive + Targeted

# International Experience with Spending Reviews

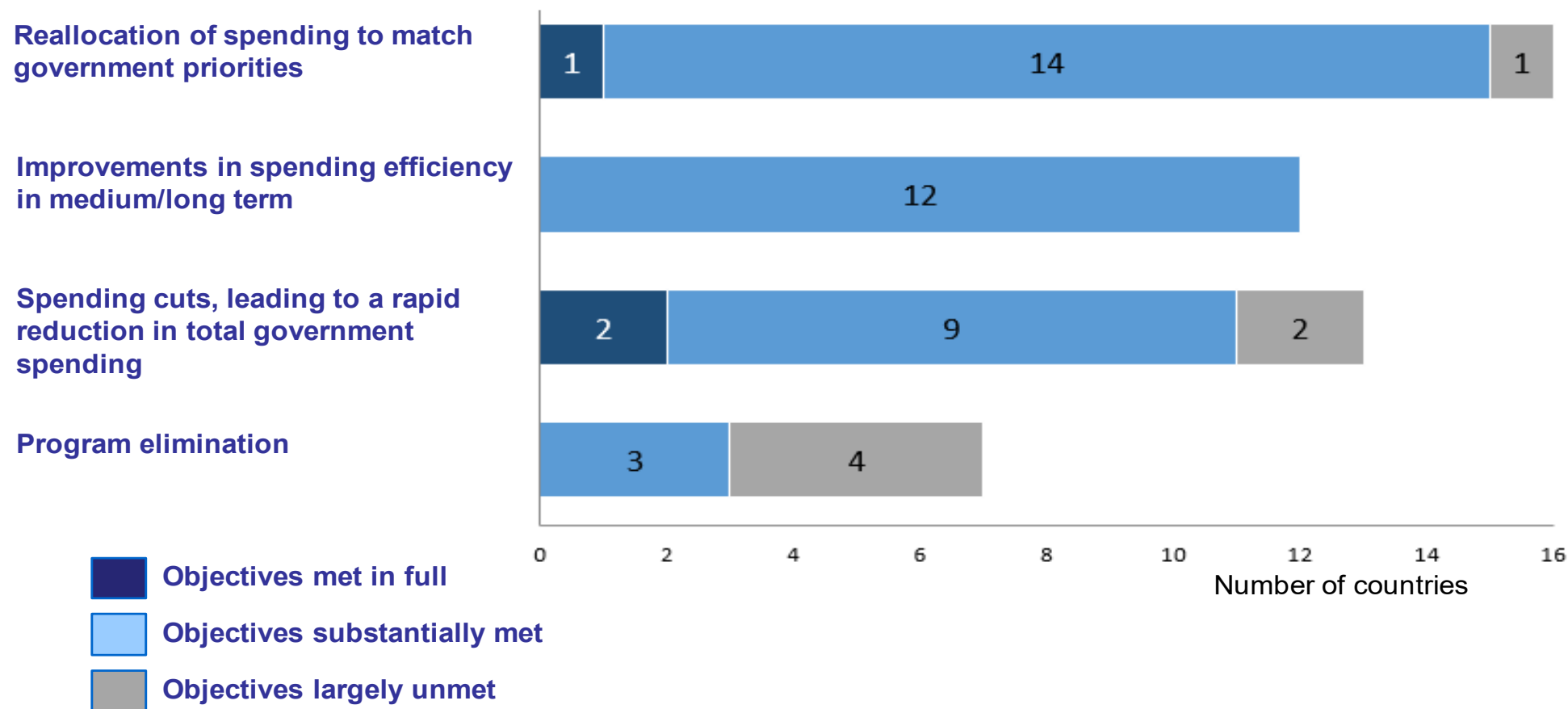
Adoption of spending reviews within OECD (2011-2020)



Source: OECD Performance Budgeting Survey 2018 and 2020

# International Experience: Effectiveness of Spending Reviews

Evidence from OECD Country Survey (2019)



# Objective 4. Strengthening transparency and accountability

- Transparency raises the political costs of unsustainable policies, strengthens the enforcement of fiscal rules, improves market access, reduces borrowing costs, and promotes accountability.
- The IMF's Fiscal Transparency Code sets the international standard for disclosing information about public finances.

## Fiscal Transparency Code – An output-focused modular design



# State of Play in Asia – Some Highlights

- Debt and deficit rules introduced by many Asian EMEs, increasingly in fiscal responsibility laws.
- During the pandemic, fiscal rules were mostly set aside; they need to be suitably updated and reinstated.
- Forecasting and monitoring capacity needs to be further improved for strong compliance with the rules and address the risk of bypassing fiscal rules through SOE financing and PPPs.
- Countries are at various stages of developing MTFFs, and they need to make them more credible (e.g., in emerging Asia) to help address increased debt burdens and needed return to fiscal sustainability.
- Linkages between MTFFs and budgets remain underdeveloped in several countries which coupled with weak macro-fiscal forecasting capacity, continue to constrain medium-term fiscal planning.
- Performance indicator systems need to be streamlined and targeted to users with performance analysis.
- Only a few countries publish fiscal risk statements. LIC and EME coverage and depth of fiscal risk reporting needs to improve. Quantitative analysis remains mostly absent.
- In-depth, narrowly focused spending reviews hardly used.
- Countries are making progress in moving towards accrual financial reporting, but public sector coverage is still limited with incomplete balance sheets.
- Several Asian countries have still to catch up with peers in other regions in terms of fiscal transparency.
- Long-term fiscal projections only in more advanced Asian countries.



# Spending better: Focus Areas and Instruments (Summary)

