

Credible and Robust Fiscal Frameworks

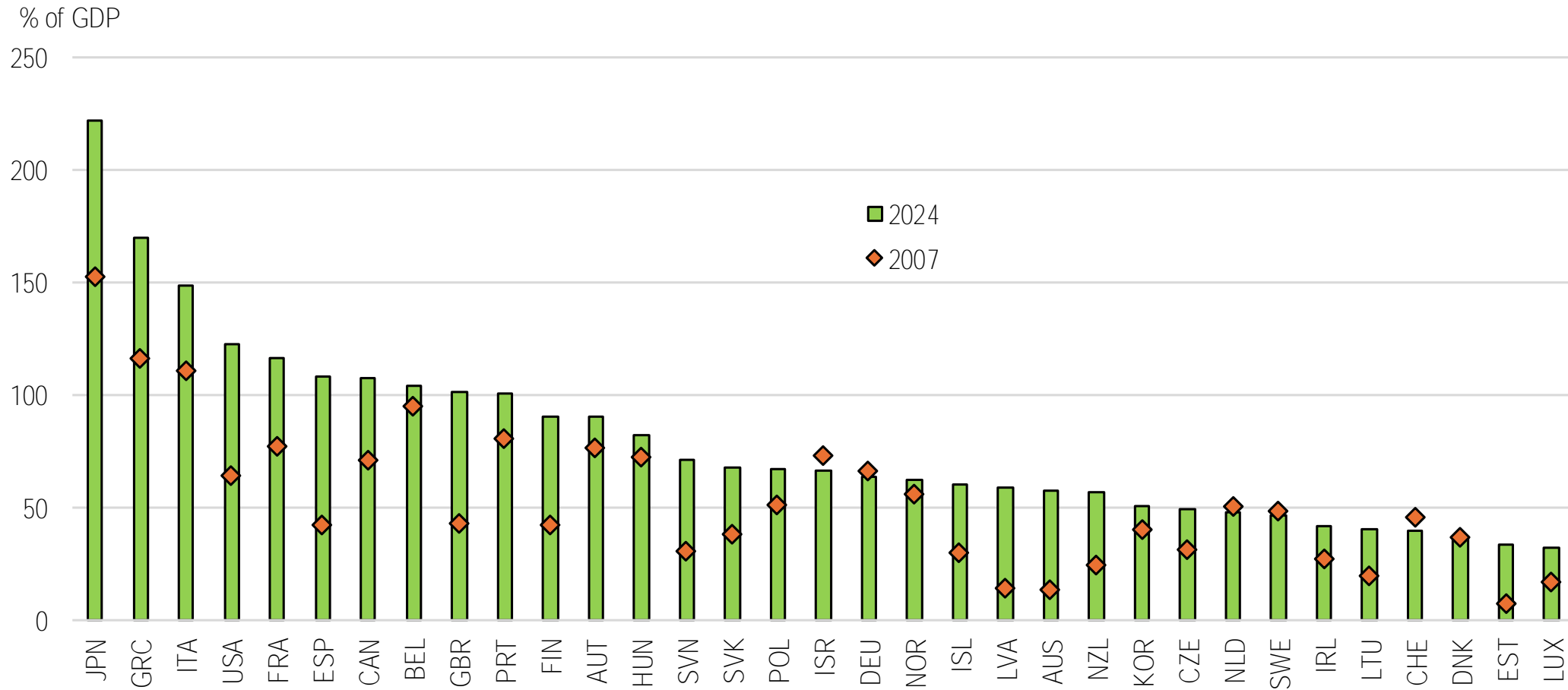
Tokyo Fiscal Forum

Ben Westmore
11 June 2025



A focus on fiscal frameworks partly stems from the rise in public debt ratios

General government gross financial liabilities



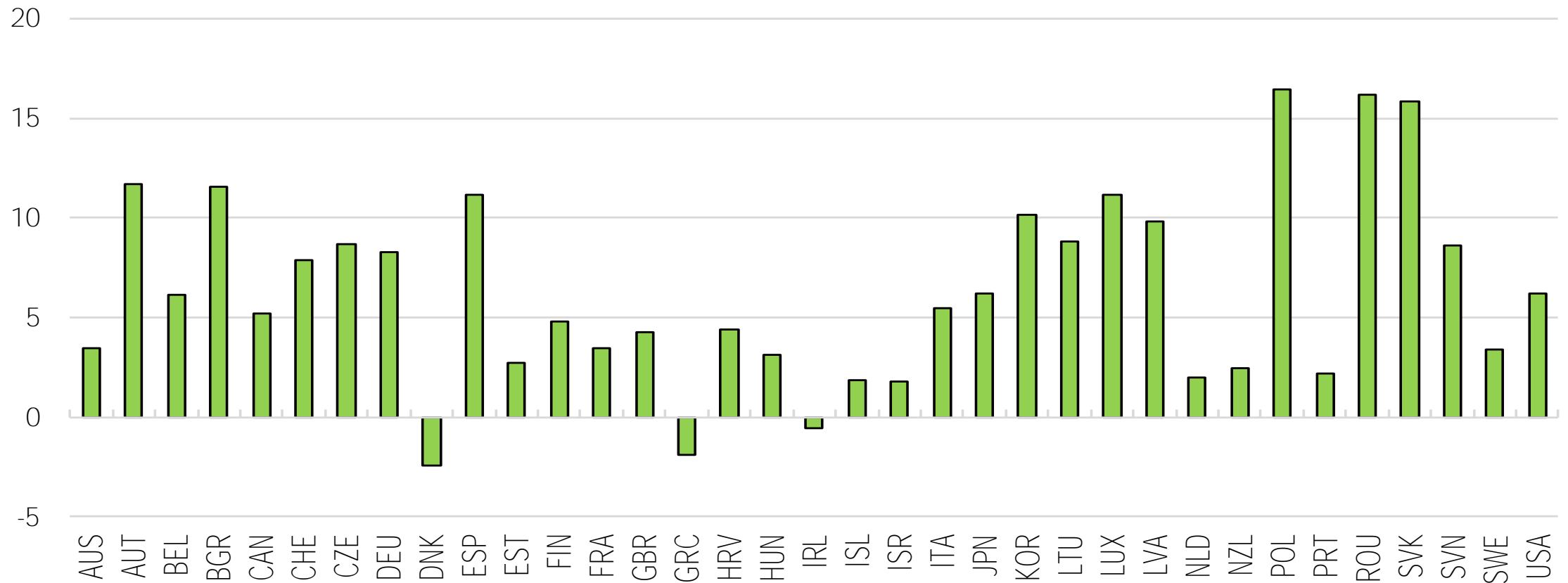
Note: The green bars for India and Indonesia related to 2023 and 2022 respectively. In cases where there are missing data for OECD countries (Japan, Korea, Slovenia and Israel), values for 2024 are estimated using OECD Economic Outlook 117 desk projections.

Source: OECD Economic Outlook Database.



Along with impending fiscal pressures in many economies

Projected change in fiscal pressure (structural primary revenue) between 2025 and 2060 to keep the public debt-to-GDP ratio at its current level, % pts of potential GDP

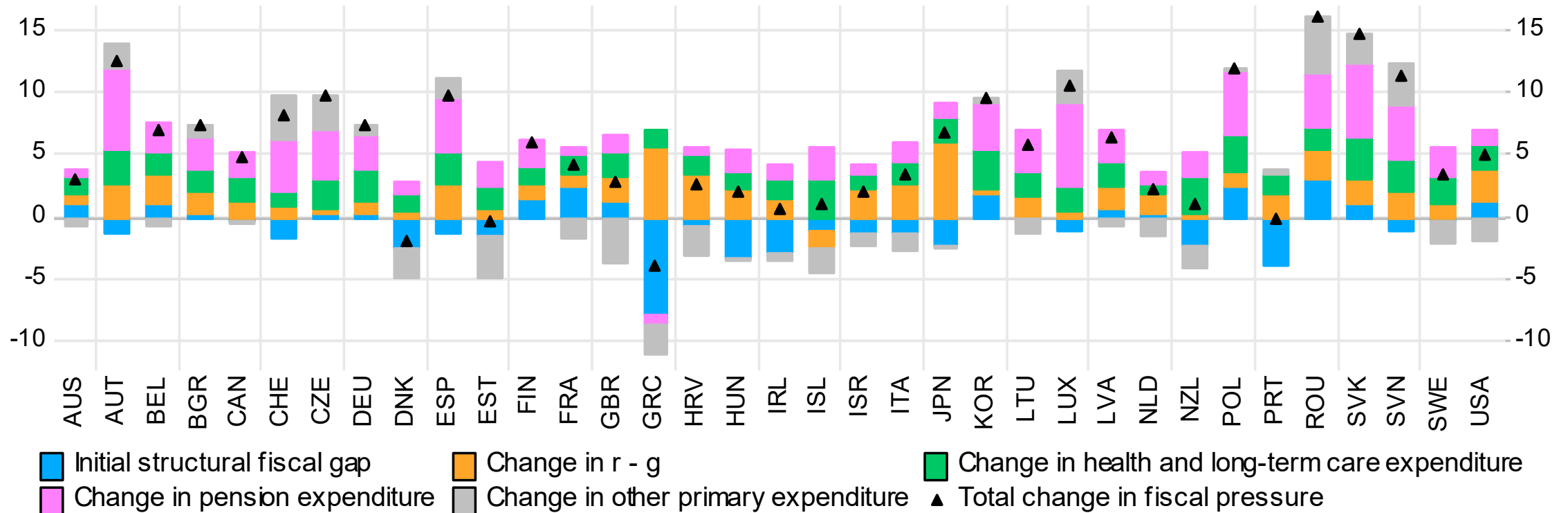


Source: OECD Long-Term Model.



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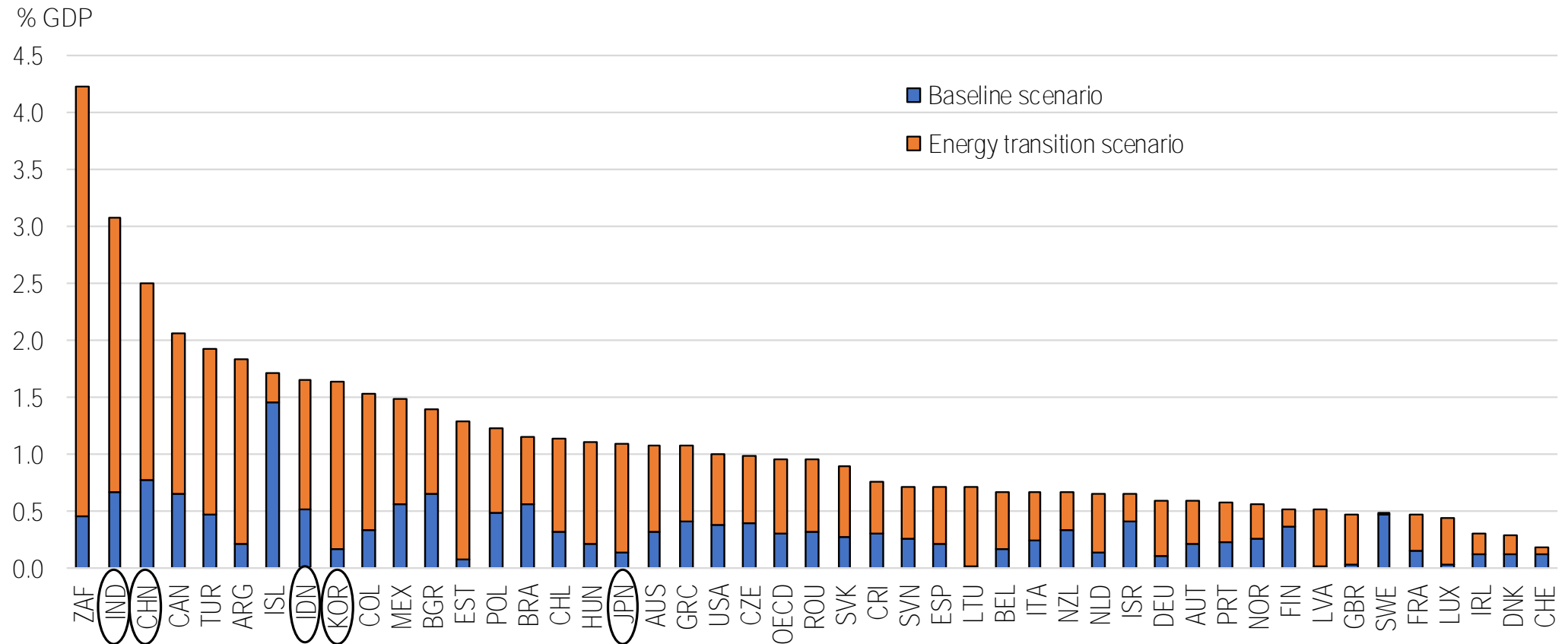


Source: OECD Long-Term Model.



And additional climate-related public investment needs

Annual average estimated investment in electricity capacity between 2026 and 2030 under a baseline scenario and an energy transition scenario consistent with limiting global warming to 1.5°C



Source: Guillemette and Chateau (2023).



“To ensure that public debt is on a sustainable path, clear and credible medium-term fiscal plans are needed to show how countries intend to address pressures on public finances. Thus, reducing non-essential or inefficient expenditures by undertaking periodic spending reviews, targeting of policies, as well as raising revenues by reforming tax systems or broadening tax bases, are key policy instruments to help ensure fiscal sustainability.”



How to strengthen fiscal frameworks? OECD Spending Better Framework





1. Set Clear Fiscal Objectives

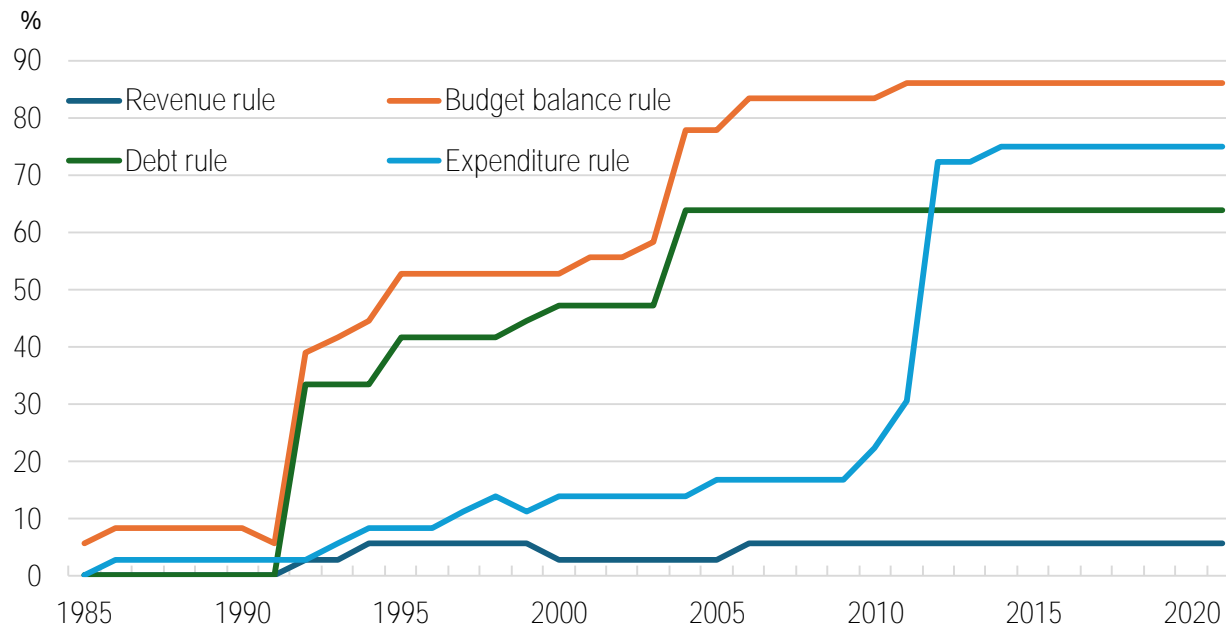
- Can be in the constitution, legislated, included in government statements to parliament or in coalition agreements.
- Provide the anchor for subsequent principles that operationalise them – such as top-down expenditure ceilings.



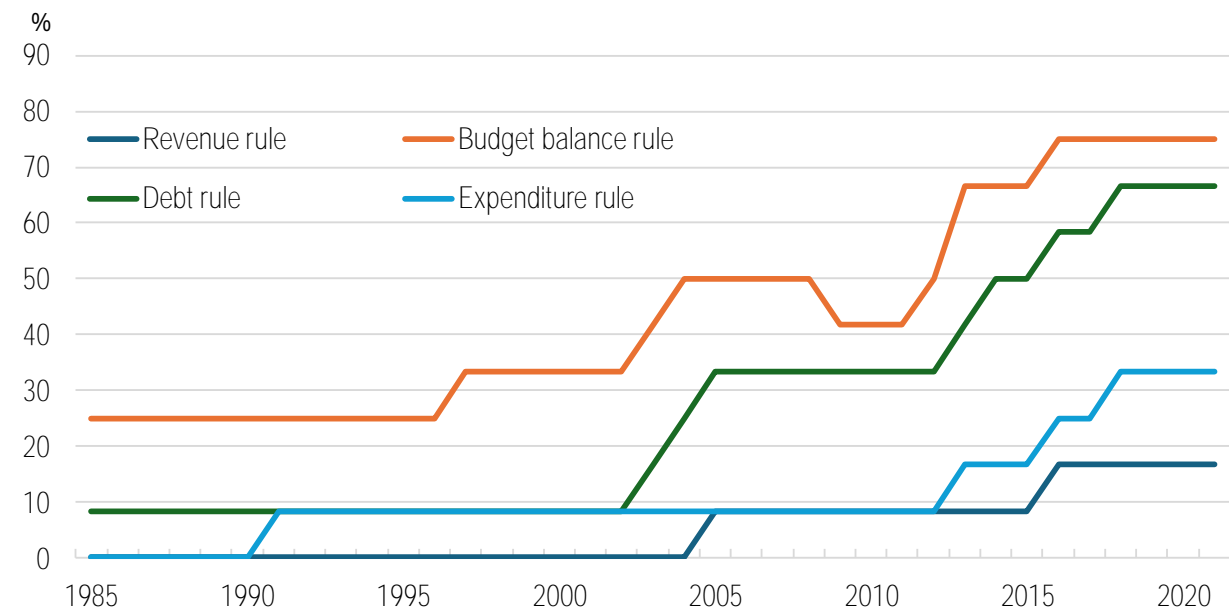
Fiscal rules have been increasingly adopted, including in Asia

Types of fiscal rules

OECD economies (proportion)



Non-OECD Asian economies (proportion)



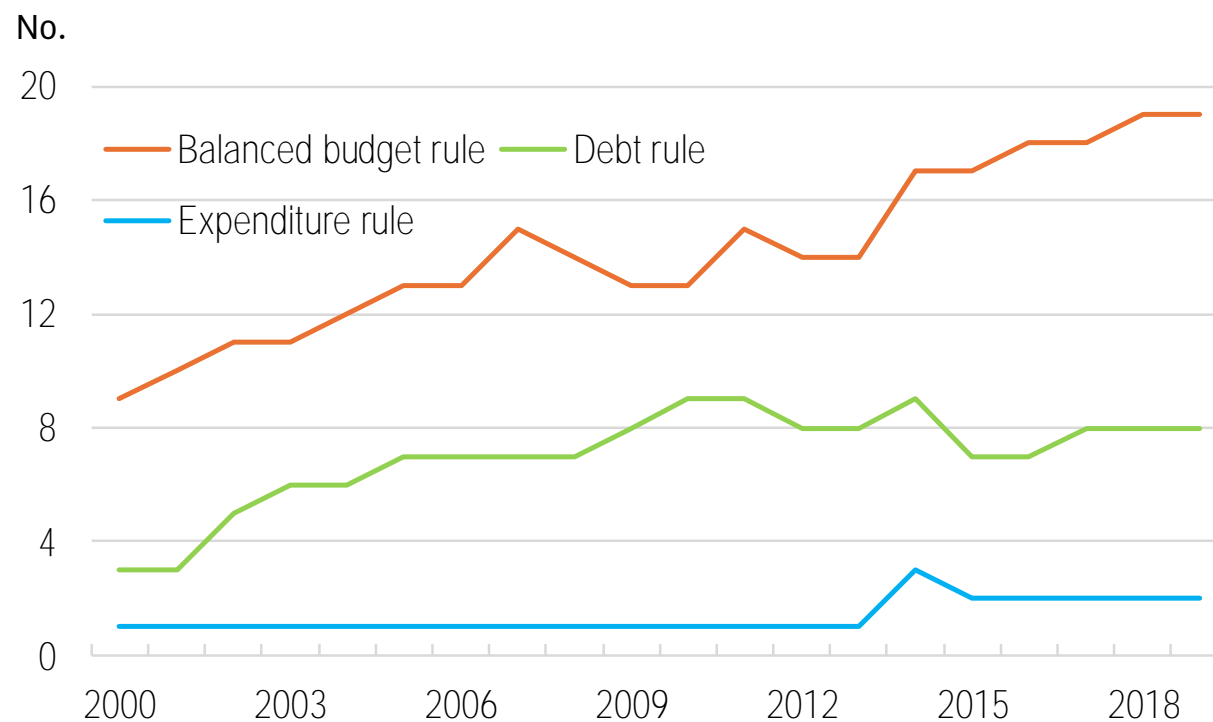
Note: Only rules that are enshrined in the constitution, law or coalition agreement are included. In the right hand side figure, the countries covered are Cambodia, Hong Kong, India, Indonesia, Malaysia, Maldives, Mongolia, Singapore, Sri Lanka, Thailand, Timor-Leste and Viet Nam.

Source: IMF Fiscal Rules Dataset; OECD calculations.



...and at subnational government level

Number of local government fiscal rules, European countries



Note: Data covers 35 European countries.

Source: de Biase and Dougherty (2022)



2. Objective Economic Assumptions

- 33 of the 36 surveyed OECD countries disclose forecasts in budget documentation, while 32 disclose risks to these forecasts.

3. Multi-Year Expenditure Baselines

- Should be updated regularly and reflect actual spending decisions.

4. Top-Down Expenditure Ceilings

- Operationalise high-level fiscal objectives and guide budget allocations. Ceilings should be set before considering bottom-up requests from line ministries.
- 26 of the 36 OECD countries have multi-annual top-down expenditure ceilings.



5. Regular Spending Reviews
 - Help align expenditures with government priorities and should be integrated into the budget process.
 - Implementation of spending reviews has increased from 50% in 2011 to 97% in 2023 among OECD countries.
6. Informed Spending Decisions
 - Relies on performance data. Key performance indicators should be included in budget documents for accountability.
 - 23 of the 36 OECD countries have compulsory performance budgeting for line ministries.
7. Consider All Forms of Expenditure
 - All forms of expenditure should be treated equally in the budget process. This includes entitlements, tax expenditures, loans and guarantees.
 - 26 out of the 36 OECD countries identify government guarantees in budget documentation.



8. Line Ministries as Partners

- Line ministries should be seen as partners in the budget process with finance functions coordinating budget-related matters.
- 24 out of the 36 OECD countries grant complete institutional autonomy to line ministries finance functions.

9. Budget Transparency

- Crucial for accountability and public trust.
- 29 out of the 36 OECD countries provide interactive online financial data for public engagement.

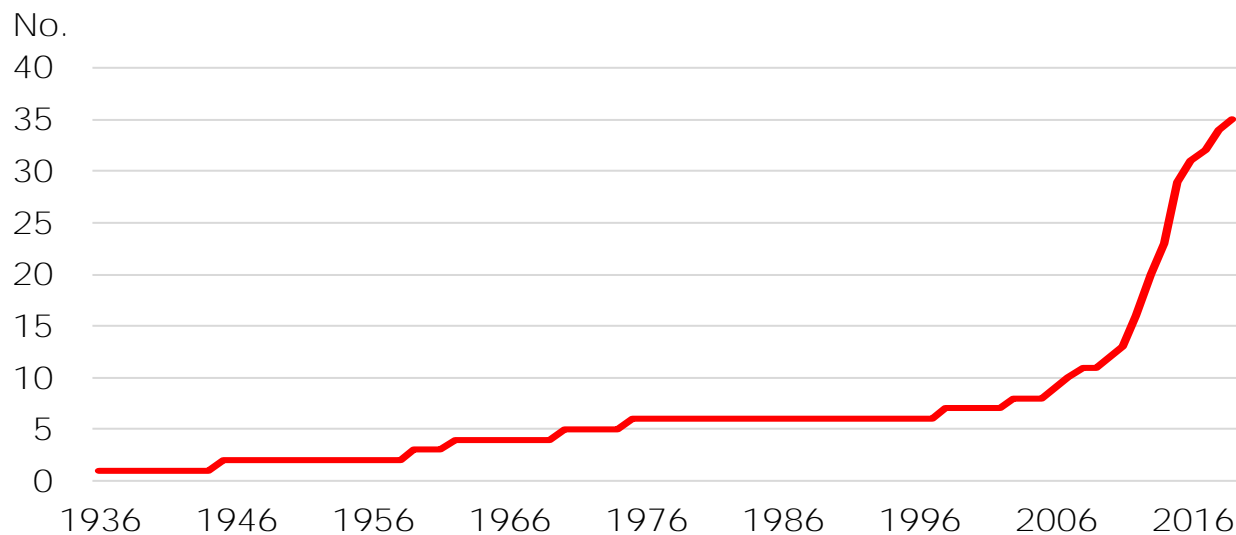
10. Effective Budget Oversight

- Parliament must have timely access to all the budget information it needs to be able to properly scrutinise and review the proposed government spending.
- Independent fiscal institutions can play a significant role in enhancing parliamentary oversight.

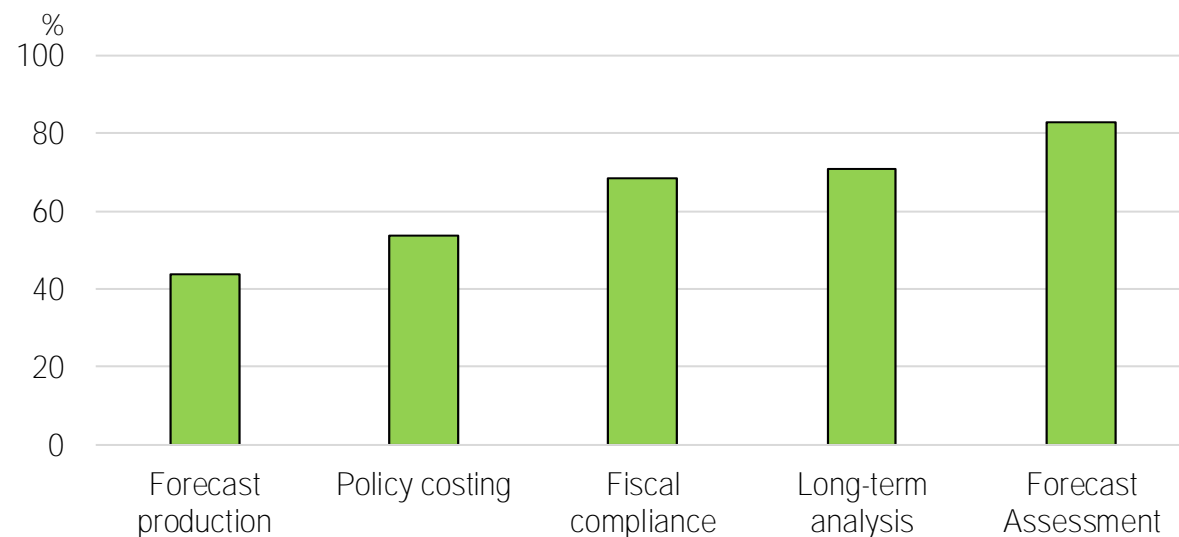


Independent fiscal institutions have become more prevalent but perform different roles

Number of independent fiscal institutions in OECD countries



Independent fiscal institutions by type of functions performed, % of OECD IFIs



Note: Only includes central government independent fiscal institutions.



OECD Economic Surveys highlight areas for further reform efforts

Fiscal framework-related recommendations from OECD Economic Surveys of countries in the Asian region

Korea (2024)	<ul style="list-style-type: none">- Adopt a numerical fiscal rule and continue to carry out regular spending reviews to ensure long-term fiscal sustainability.- Re-examine the tax revenue projection methodology.- Consider abolishing borrowing limits, while continuing to use the regular budget process and annual accounting and auditing for oversight and accountability
Japan (2024)	<ul style="list-style-type: none">- Limit the use of supplementary budgets and contingency reserve funds to large macroeconomic shocks and evaluate them ex post.- Elaborate a clear and credible roadmap to achieve a primary surplus, underpinned by specific expenditure and tax measures.- Establish an independent fiscal institution.- Enhance evidence-based policy making and spending reviews, especially for multi-year programmes.

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Viet Nam (2023)	- Prepare a concrete medium-term fiscal consolidation plan to further enhance revenue, improve spending efficiency and increase the transparency of debt management based on plausible economic projections.
Malaysia (2024)	- Expand the fiscal framework to cover the consolidated public sector (general government and non-financial public corporations) and contingent liabilities.
Thailand (2023)	- Setting more ambitious targets for lowering the public debt burden to strengthen medium to long-term fiscal sustainability.
Indonesia (2024)	<ul style="list-style-type: none">- Ensure a medium-term fiscal strategy that takes steps to increase revenues as a share of GDP to fund spending priorities, notably in education, infrastructure and reducing informality.- Ensure value for money of new spending commitments and maintain the deficit to GDP ratio below the mandated ceiling.- Undertake regular spending reviews.
China (2022)	Centralise the delivery of some key spending items such as wage bills in education and health.



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