



Medium Term Budgeting As A Link Between Wide Fiscal Policy Purposes And Budgeting

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ABSTRACT

The budget structure should be designed to not only maintain fiscal consolidation but also ensure that all funds are directed where they are most needed. Countries must manage their public finances in accordance with a clear strategy that the government adheres to and which is enshrined in fiscal rules or fiscal objectives.

KEYWORDS: Medium-term budgeting, stages of medium-term planning, the role of the state, effectiveness, budgeting frameworks.

INTRODUCTION

In the wake of COVID-19 pandemic, Russian military campaign in the Ukraine and as a consequence we observed energy crisis, most OECD countries confronted with rising debts and high deficits. This is coupled with short to long-term spending pressures from factors such as ageing and the climate transition. It is obvious and very important to keep public finance in balance while government has to spend more because of contingency costs in vital areas. Therefore, the budget framework must be designed in a such way as not only to support fiscal consolidation, but also ensure that all funds are directed to where the need is greatest and take away from areas where their need is not necessary now. Countries need to operate their public finances according to a clear strategy that the government is committed to, embodied in fiscal rules or fiscal objectives (2023, OECD, Medium-term and top-down budgeting in OECD countries).

In the economic system of any country, the state is one of the main agents in the economy. Of course, depending on the type of economic system the role of the state is different, there are also different views concerning the functions and extent of state intervention in the economy, but most economists agree that the state is an integral entity of the market economy. Thus, one of the functions entrusted to the state, which it carries out with the help of fiscal and monetary policy is to achieve macroeconomic stabilization of the economy. The state uses tools such as finance and fiscal policy, where the central element is the state budget.

In recent years an alternative method of budgeting, which has become widespread not only among the OECD countries, but also countries outside the OECD is a medium-term budget planning. It is introduced to improve the annual budget process. According to research of WB's

staff “by the end of 2008, more than 2/3 of all countries had adopted medium term expenditures framework (MTEF).” Among these countries we can see as high-income countries so low- and middle-income ones. These countries have totally different aims but all of them use MTEF because MTEF gives opportunity to realize their divergent objectives. So, low- and middle-income countries use MTEF as a primary tool for guarantee their multiyear commitments so that donor-countries can give them credits. They need investments for developing their economy but also they must convenience donor-countries in their creditability. High-income countries use MTEF in order “to support budgetary objectives, improve expenditure prioritization, and encourage improved government performance.”

For understanding the concept of medium-term budgeting, it is useful to distinguish 3 demanding stages: medium term fiscal framework, medium term budget framework and medium-term expenditures framework.

1. Medium term fiscal framework (MTFF) is the first stage towards MTEF. “It typically contains a statement official policy objective and a set of integrated medium-term macroeconomic and fiscal targets and projections”. MTFF covers “top-down specification of the aggregate resource envelope and the allocation of resources across spending agencies”. MTFF uses spending ceilings for agencies during implementation of budget. MTFF has such indicators as reports which include medium-term macro-fiscal strategy of government, macroeconomic forecast, fiscal forecast, analysis of debt sustainability and agency expenditure ceilings.

2. Medium term budget framework (MTBF). Here the aim is allocation resources depending on government strategic priorities. MTBF gives opportunity to make fiscal policy beyond one financial year. Usually MTBF “cover the preparation, execution, and monitoring of multi annual budget plans and contain both expenditure and revenue projections as well as the resultant budget balances.” According to some sources MTBF is considered as the most basic type of MTEF. MTBF has the same features as MTFF but additionally it covers bottom – up estimation of spending agency needs in resources. “Strengthening of the MTBFs can efficiently complement the introduction of other institutional reforms such as the introduction of an expenditure rule or top-down budgeting.”

3. A medium-term performance framework (MTPF). MTPF starts from MTBF. Here the process of shifting from inputs to outputs is completed and additionally MTPF focuses on measurement and evaluation of performance. “An MTPF, and therefore a full-fledged MTEF, is a pinnacle reachable only by those countries that have implemented a well-functioning MTBF.” MTPF has strategy sector (it is in charge of discussing program outputs, outcomes, and performance), agency for establishing budget targets (in charge of output, outcome, and performance indicators), spending agencies (in charge of periodically and comprehensive report of spending).

Medium term expenditures framework (MTEF) allocates resources depending on objectives. “MTEF develops the approach further by adding elements of activity and output based budgeting to the MTBF framework. These methods seek to improve the value for money of public spending, in addition to reinforcing fiscal discipline and strategic prioritization.” An MTEF was defined as a framework for integrating fiscal policy and budgeting over the medium-term by linking aggregate fiscal forecasting to a disciplined process of maintaining detailed medium-term budget estimates by ministries reflecting existing government policies. Forward

estimates of expenditures become the basis of budget negotiations in the years following the budget and the forward estimates are reconciled with final outcomes in fiscal outcome reports. So, MTEF has 3 high level purposes concerning to spending management: aggregate fiscal discipline, efficiency of resource allocation and technical efficiency. One of the shortages of annual budgeting is it cannot achieve them at the same time. In the condition of MTEF macrofiscal policy of country is framed in a medium-term context through “debt sustainability analysis, multiyear fiscal targeting, and in some cases permanent fiscal rules.” By this way MTEF sets up a formal link between wide fiscal policy purposes and budgeting.

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