



Implications of Monetary Union for Budget Management

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EAC Workshop on Fiscal Implications of Monetary Union

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Outline of Presentation

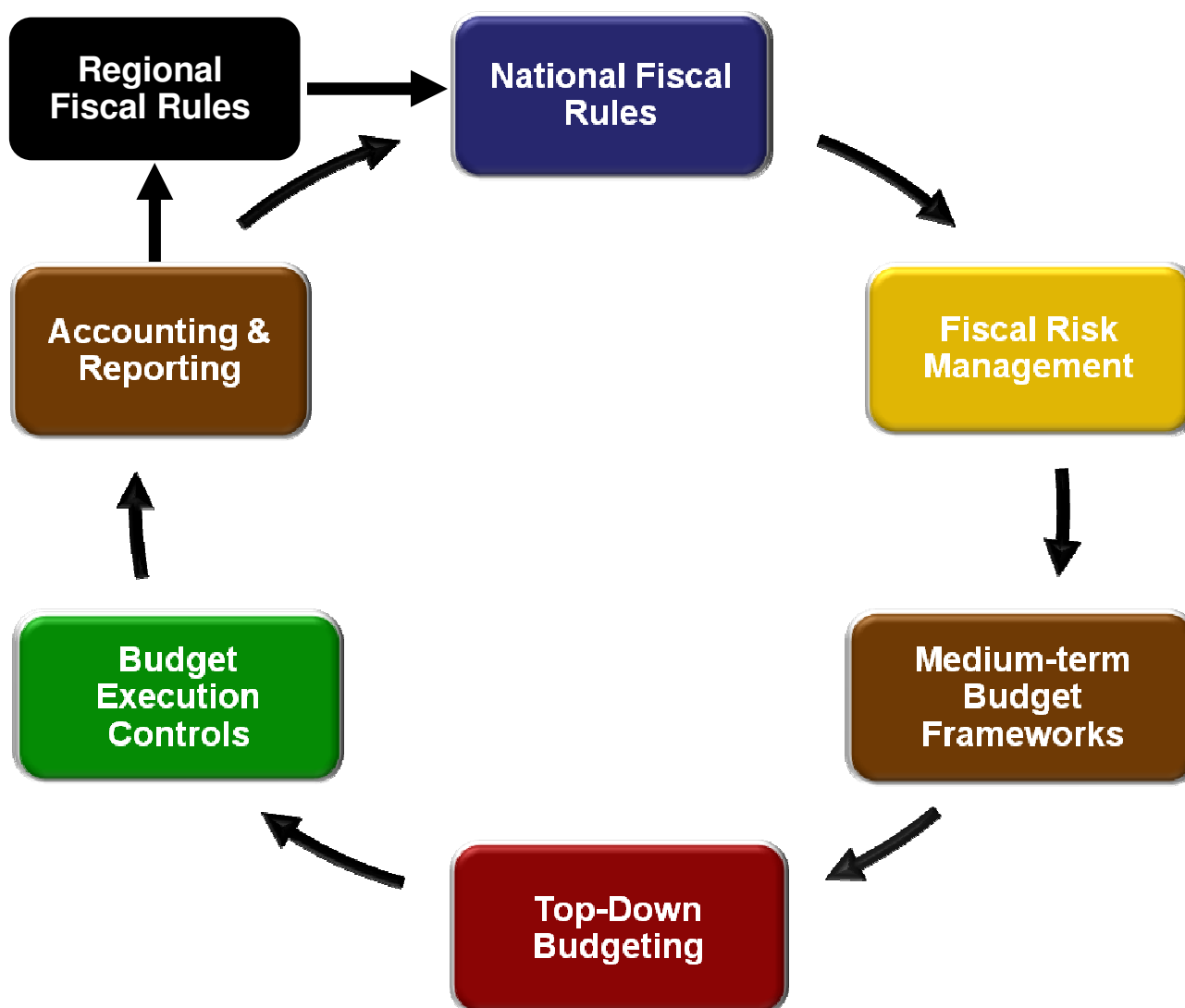
- I. Enforcing Regional Fiscal Rules**
 - a. Implications for National Budget Management
 - b. Lessons from EU and WAEMU Experience
 - c. Contents of EU & WAEMU PFM Directives

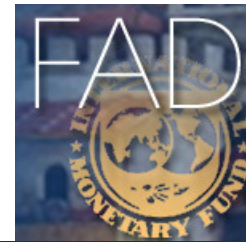
- II. Harmonizing Budget Management: EU vs. EAC**
 - a. National Fiscal Frameworks
 - b. Fiscal Risk Management
 - c. Medium-term Budget Planning
 - d. Top-Down Budget Preparation
 - e. Budget Execution
 - f. Accounting & Reporting (Session 5)

- III. Conclusions**

II. Enforcing Regional Fiscal Rules:

a. Implications for National Budget Management





I. Enforcing Regional Fiscal Rules:

b. Lessons from EMU & WAEMU

- **In both EMU & WAEMU, initial focus was on designing regional fiscal rules and surveillance mechanisms**
 - **EU: 1999 Stability & Growth Pact**
 - **Balance > - 3% of GDP**
 - **Debt < 60 % of GDP**
 - **WAEMU: 1999 Convergence, Stability, Growth & Solidarity Pact**
 - **Balance > 0 % of GDP**
 - **Debt < 70 % of GDP**
- **Problems enforcing regional fiscal rules led to increased focus to strengthening and harmonizing national budget frameworks:**
 - **1997/2009 WAEMU Directives on Public Financial Management**
 - **2011 EU Directives on National Budgetary Frameworks**



I. Enforcing Regional Fiscal Rules:

c. Content of WAEMU & EMU PFM Directives

WAEMU Public Financial Management Directives

- 1. Annual Budget Laws**
- 2. Public Accounting**
- 3. Budget Classification**
- 4. Chart of Accounts**
- 5. Summary Fiscal Table**
- 6. Fiscal Transparency**

EU Budgetary Frameworks Directive

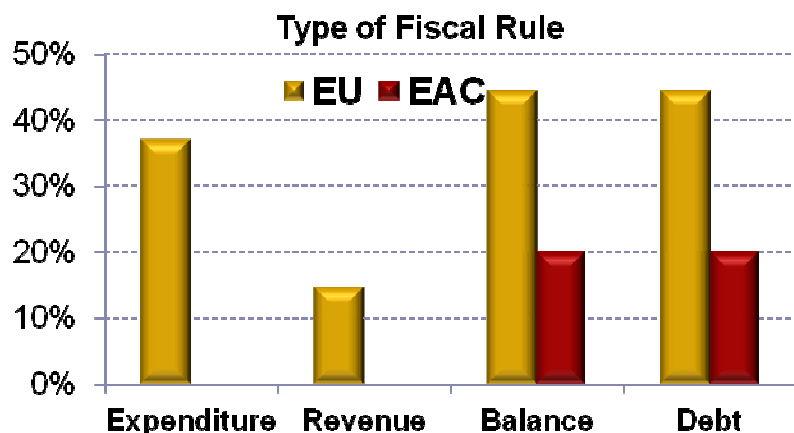
- 1. Accounting & Statistics**
- 2. Forecasts**
- 3. Fiscal Rules**
- 4. MT Budget Frameworks**
- 5. Fiscal Transparency**



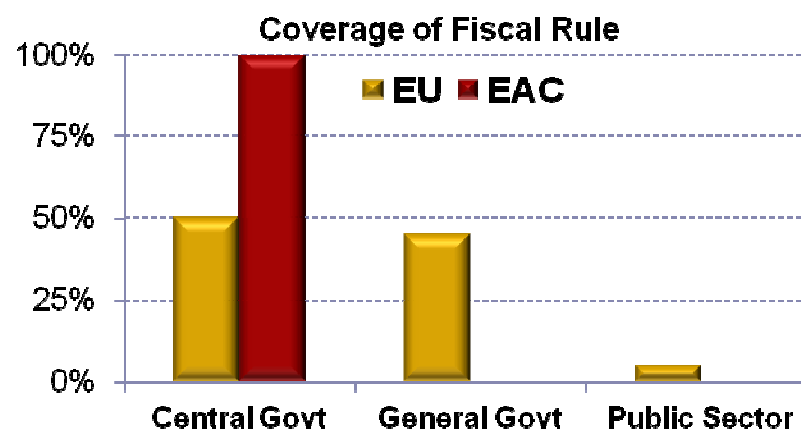
II. Harmonizing Budget Management in EU & EAC:

a. Fiscal Rules

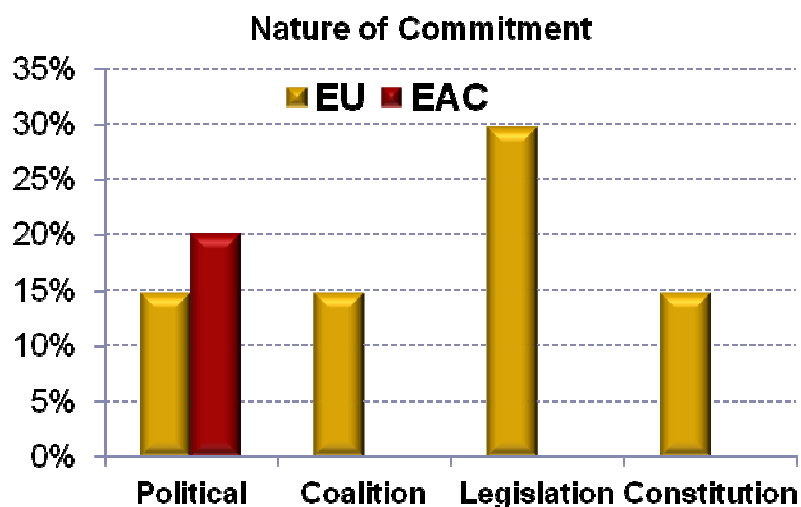
Rules more common in EU than EAC...



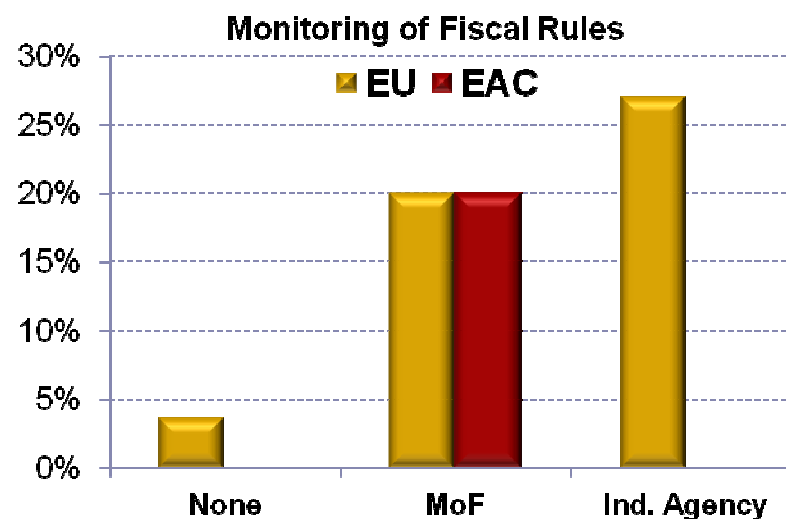
...EU rules are broadening in coverage...



...are increasingly enshrined in law...



...and independently monitored.





II. Harmonizing Budget Management in EU & EAC: b. Fiscal Risk Management

Fiscal Risk Management: Good Practices

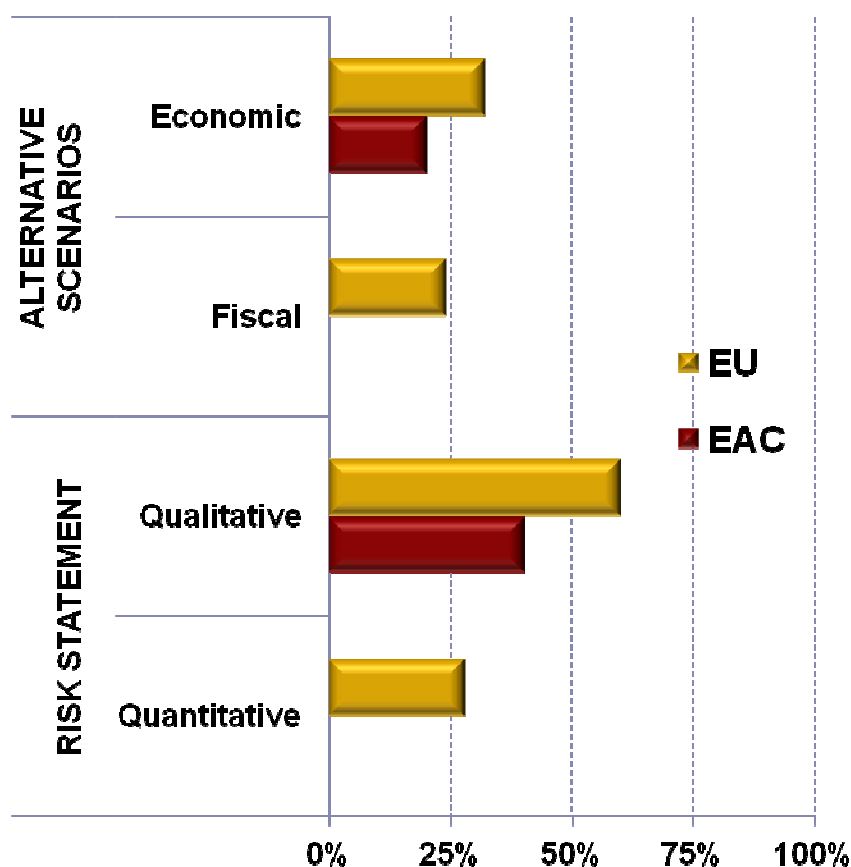
Alternative Forecast Scenarios

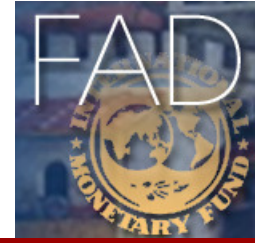
- Different Economic Assumptions
- Alternative Macro-Fiscal Forecast Scenarios

Fiscal Risk Statements

- Qualitative Discussion of Key Fiscal Risks
- Quantitative Statement of Material Fiscal Risks

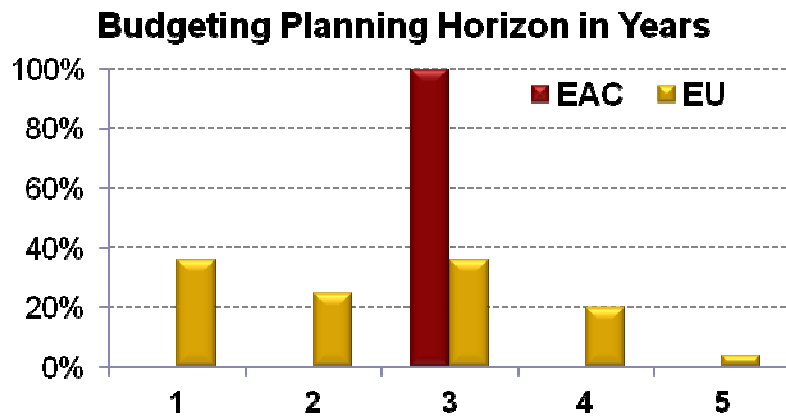
Fiscal Risk Management in EU vs. EAC



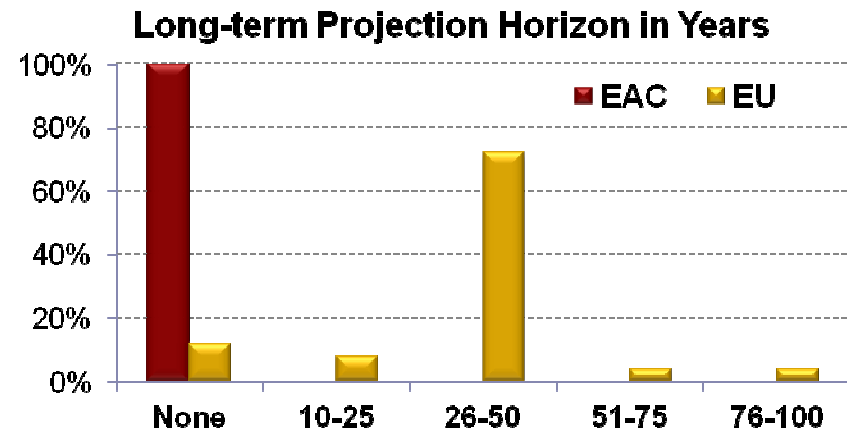


II. Harmonizing Budget Management in EU & EAC: c. Medium-term Budget Frameworks

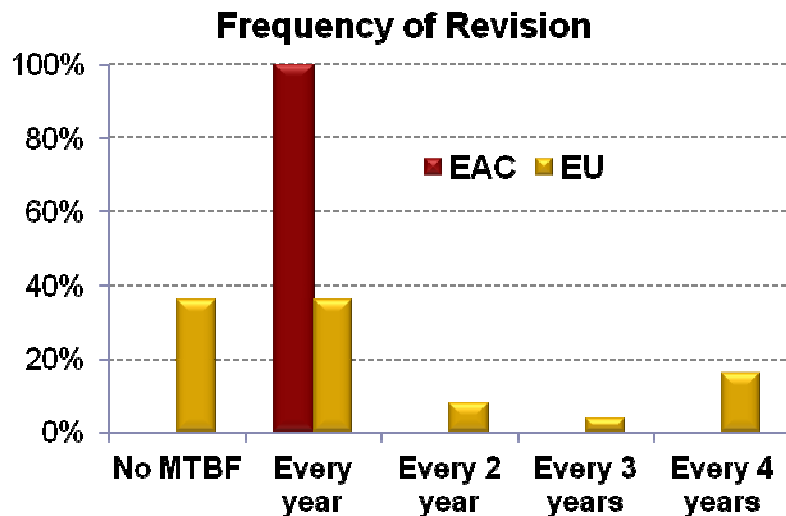
MTBFs more common in EAC than EU



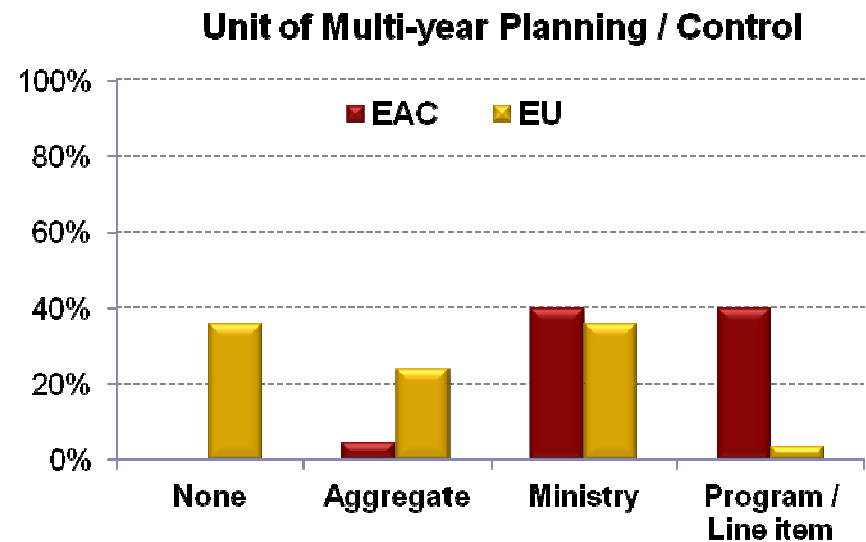
But EU better at long-term projections



EU MTBFs are more binding than EAC



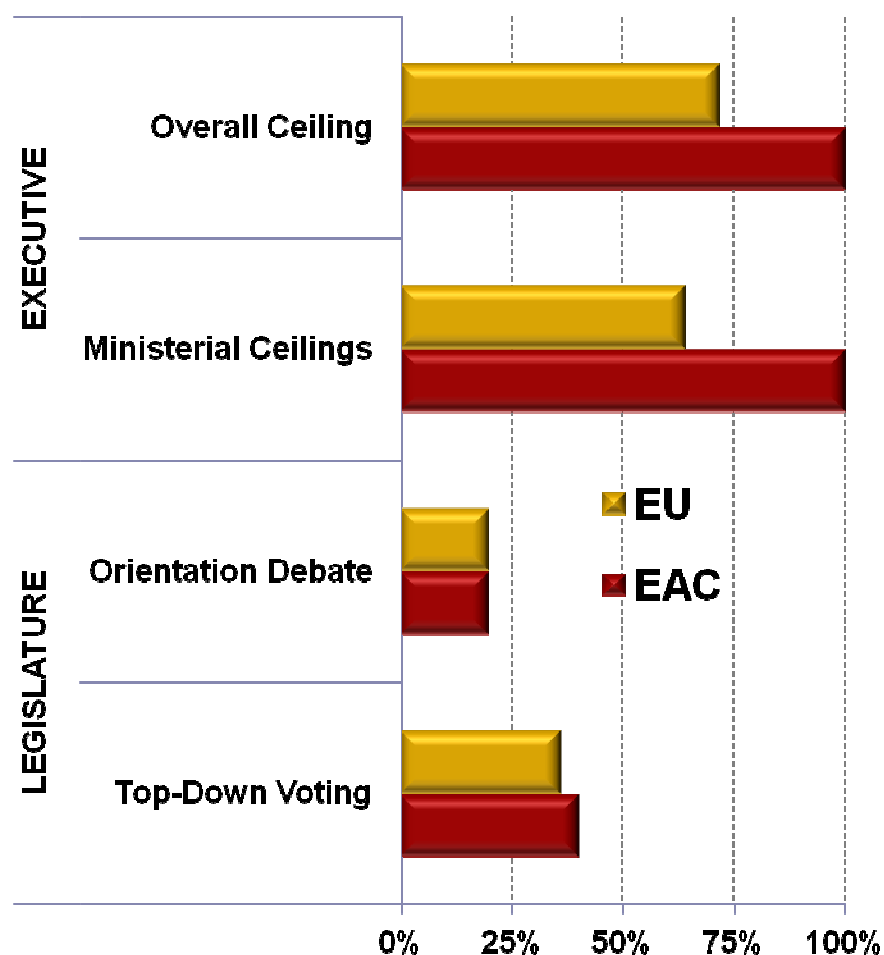
EU focus on discipline, EAC on planning





II. Harmonizing Budget Management in EU & EAC: d. Top-Down Budgeting

Top-Down Budgeting in EU & EAC



Within the Executive, top-down budgeting is more common in EAC than among the EU:

- All EAC set overall and ministerial ceilings at the start of budget preparation
- Only 60-70% of EU MoFs set expenditure ceilings at the start of the budget process

Within the Legislature, budgeting still follows a traditional, bottom-up approach in both EAC and EU:

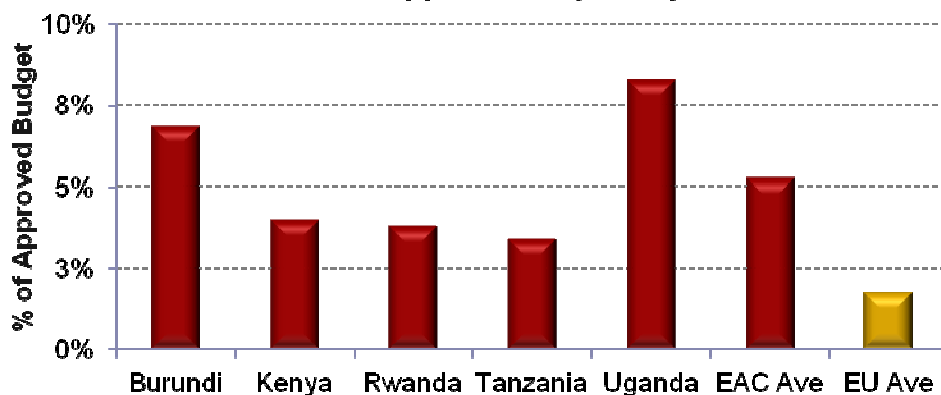
- Only 20 % of legislatures hold formal budget **orientation debate** to approve framework for budget preparation
- Only 35-40% Top-down sequence to budget approval by Parliament



II. Harmonizing Budget Management in EU & EAC: e. Budget Execution

Supplementaries are a problem in EAC

Size of Supplementary Budgets

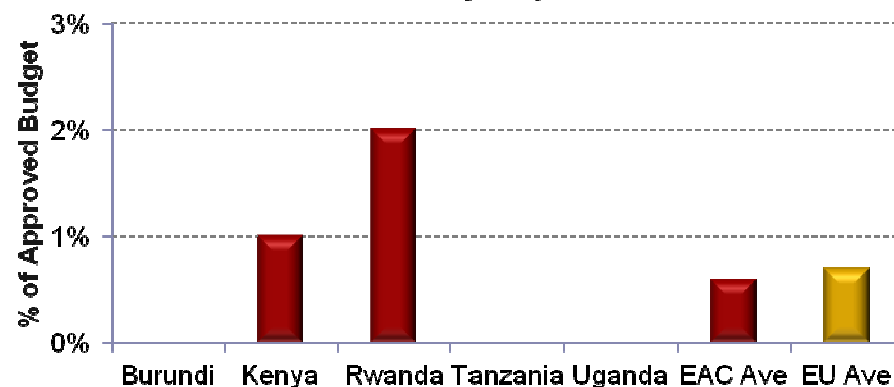


...legal loopholes, and...

Overspending w/o supp budget	Never	Up to a Limit	Unlimited
Burundi	✓		
Kenya		✓	
Rwanda	✓		
Tanzania	✓		
Uganda		✓	
EAC Ave	60%	40%	0%
EU Ave	84%	8%	8%

...due to inadequate reserves...

Size of Contingency Reserve



...a reluctance impose penalties.





III. Conclusions:

Implications of EAMU for Budget Management

- 1. Monetary union requires more than just sound regional fiscal rules**
- 2. Regional fiscal rules must be supported by credible national budgetary procedures**
- 3. Strengthening budget management in EAC will entail introduction of some new concepts:**
 - a. Commitment to numerical fiscal rules**
 - b. Development of fiscal risk statements**
- 4. But will also involve reorienting and enhancing some established budgetary reforms:**
 - a. More binding medium-term budget frameworks**
 - b. Earlier legislative engagement in top-down budgeting**
- 5. And will also require member countries to address some chronic weaknesses in their PFM systems:**
 - a. Curtailing large supplementary budgets**
 - b. Developing and more credible sanctions for overspending**



Annex:

Characteristics of Good Fiscal Rules

Characteristic	Rationale	Good Practice	Bad Practice
Medium-term horizon	<ul style="list-style-type: none"> • Separate fiscal policy and budget decisions in time • Allow flexibility to deal with volatility or shocks 	<ul style="list-style-type: none"> • Over the cycle (UK) • Over the Parliament (NL) 	<ul style="list-style-type: none"> • Annual deficit ceiling • Debt reduction path
Precise & transparent	<ul style="list-style-type: none"> • Provide clear guide for policy-making • Facilitate evaluation of compliance 	<ul style="list-style-type: none"> • 1% surplus over the cycle (Sweden) 	<ul style="list-style-type: none"> • Increase net worth over time
Binding on outturn	<ul style="list-style-type: none"> • Reduce optimism bias in forecasts • Ensure deviations are made up in future 	<ul style="list-style-type: none"> • “Debt brake” rule (Swiss) • Maintain debt below 40% of GDP (UK) 	<ul style="list-style-type: none"> • Aim for balance over the forecast horizon • Real expenditure growth targets
Stable over time	<ul style="list-style-type: none"> • Build public support • Raise reputational cost of breaking the rule 	<ul style="list-style-type: none"> • Procedural FRLs (Aus, NZ) 	<ul style="list-style-type: none"> • Frequent amendments to numerical FRLs
Comprehensive in scope	<ul style="list-style-type: none"> • Limit scope for burden shifting or creative accounting 	<ul style="list-style-type: none"> • General govt (SGP) • Public sector (UK, NZ) 	<ul style="list-style-type: none"> • Budgetary Central Govt • Central Govt