VII. BUDGET PRACTICES AND PROCEDURES

The twin challenges of an ageing population and the financial crisis place an acute and momentous responsibility on governments to adopt budget policies to restore long-term fiscal sustainability. A nation's public expenditure system must promote fiscal discipline, the allocation of resources where they are most valuable and the efficient operation of government.

This chapter includes indicators on selected practices and procedures related to budget formulation and execution in central government. Well-functioning budget institutions are fundamental to suporting economic growth, improving fiscal health, and achieving stable taxes and intergenerational fairness. Indicators are presented on the extent to which: countries have adopted practices to encourage fiscal sustainability; the public is informed so that fiscal policies and spending priorities can be understood, monitored and evaluated; budgets incorporate a medium-term perspective to ensure that multi-year consequences of spending measures are considered; performance information is used in budget formulation; and the executive can make changes to the approved budget.

All results are based upon country responses to the OECD Survey of Budget Practices and Procedures and represent their own assessments of current practices and procedures. The indexes represent calculations by staff members with the purpose of furthering discussion, and consequently may evolve over time.

17. Fiscal sustainability

Ageing populations and the economic downturn pose severe challenges for the sustainability of public finances. As the costs of addressing these challenges rise more quickly than revenues, government solvency and economic growth are threatened. In addition, governments face reduced capacity to pay for current public services with today's revenues, and may have to raise taxes or cut back services in the future.

The use of fiscal projections and rules in the budget process are two strategies employed by OECD member countries to achieve sustainability. Fiscal projections assess the likely consequences of continued current spending with the impact of demographic change and other factors. OECD Best Practices for Budget Transparency recommend that projections should cover 10 to 40 years, and be revised every 5 years or when major revenue/expenditure policy changes are made. Moreover, all key assumptions underlying the projections should be made explicit, together with a range of plausible scenarios.

A fiscal rule is a constraint on fiscal policy designed to curb excessive spending above the resource base. Rules may focus on different fiscal indicators: expenditures, budget balance, debt and revenue. While fiscal rules can help governments to achieve fiscal objectives and discipline, there is no one-size-fits-all rule for every country.

Almost all OECD member countries produce long-term fiscal projections, the majority of which span 41 to 50 years. Two-thirds of these countries prepare projections annually, while others do it more periodically (every three to five years). Balance and debt rules are the most common form of fiscal rules among OECD member countries, while revenue rules are the least common. Six countries do not use fiscal rules as a means to constrain spending.

In interpreting a country's reporting of these practices, it is important to consider how monetary union reporting obligations influence responses. Under European Union convergence reporting obligations, euro area countries must report long-term fiscal projections and adopt debt and balance rules. Some countries' responses reflect practices for domestic procedures, while others capture practices for European Union Stability and Growth Pact/ Stability and Convergence Reporting.

Methodology and definitions

Fiscal sustainability encompasses government solvency, continued stable economic growth, stable taxes and intergenerational fairness (Schick, 2005). Solvency is the ability to pay financial obligations. Stable taxes allow programmes to be financed without modifying the tax burden on citizens. Fairness is the capacity to pay for current public services with today's revenues, rather than shifting the cost to future generations or denying them the services available today.

The indicators refer to the central government and draw upon country responses to questions in the OECD International Budget Practices and Procedures Database collected via a survey during the first half of 2007. Respondents were senior budget officials. Responses represent the countries' own assessments of current practices and procedures.

Further reading

Anderson, B. and J.J. Minarik (2006), "Design Choice for Fiscal Policy Rules", *OECD Journal on Budgeting*, Vol. 5, No. 4, OECD, Paris, pp. 159- 208.

Anderson, B. and J. Sheppard (Forthcoming), "Fiscal Futures, Institutional Budget Reforms and Their Effects: What Can Be Learned?", *OECD Journal on Budgeting*, OECD, Paris.

Schick (2005), "Sustainable Budget Policy: Concepts and Approaches", *OECD Journal on Budgeting*, Vol. 5, No. 1, OECD, Paris, pp. 107-126.

Notes

17.1: Based upon Q.12 "Are long-term fiscal projections prepared? How many years do they normally cover and how frequently are they prepared?". Canada, Iceland, Japan, Mexico and Turkey did not publish projections at the time of the 2007 survey. Canada has published projections in the past on an *ad hoc* basis. Since the 2007 survey, Japan has begun preparing projections on an *ad hoc* basis. Czech Republic, Denmark, Finland, France, Germany, Italy, Poland and United Kingdom also present fiscal projections over an infinite time horizon.

17.2: Based upon Q.14 "Are there any fiscal rules that place limits on fiscal policy? Which of the following defines the fiscal rule?". Euro area countries are subject to rules of Stability and Growth Pact, *i.e.* an annual budget deficit no higher than 3% of GDP (general government), and national gross debt less than 60% of GDP (or approaching that value).

17.1 The coverage and frequency of long-term fiscal projections by central government (2007)

	How many years do projections cover?					
	21-30	31-40	41-50	51-60	61+	**Total**
Frequency projections are published?						
Annually			Austria, Belgium, Czech Republic, Finland, France, Greece, Hungary, Ireland, Italy, Luxembourg, Poland, Portugal, Slovak Republic, Spain, Sweden, United Kingdom		Denmark, United States	**18**
Regularly (every 3-5 years)		Australia, New Zealand	Germany, Norway, Switzerland			**5**
Ad hoc basis	Korea				Netherlands	**2**
Total	**1**	**2**	**19**	**0**	**3**	

17.2 Central government use of rules that place limits on fiscal policy (2007)

Country	Euro area	Type of rules			
		Expenditure	Budget balance (deficit/surplus)	Debt	Revenue
Australia	❍	❍	❍	❍	❍
Austria	●	❍	●	●	❍
Belgium	●	❍	●	●	❍
Canada	❍	●	❍	❍	❍
Czech Republic	❍	●	❍	❍	❍
Denmark	❍	●	●	❍	●
Finland	●	●	●	●	❍
France	●	●	●	●	●
Germany	●	❍	●	●	❍
Greece	●	❍	●	●	❍
Hungary	❍	❍	❍	❍	❍
Iceland	❍	●	❍	❍	❍
Ireland	●	❍	●	●	❍
Italy	●	●	●	●	❍
Japan	❍	●	●	●	❍
Korea	❍	❍	❍	❍	❍
Luxembourg	●	●	●	●	❍
Mexico	❍	●	●	●	●
Netherlands	●	●	●	●	●
New Zealand	❍	❍	❍	❍	❍
Norway	❍	❍	●	❍	❍
Poland	❍	❍	●	●	❍
Portugal	●	❍	●	●	❍
Slovak Republic	●	●	●	●	❍
Spain	●	●	●	●	❍
Sweden	❍	●	●	❍	❍
Switzerland	❍	●	❍	❍	❍
Turkey	❍	❍	❍	❍	❍
United Kingdom	❍	❍	●	●	❍
United States	❍	❍	❍	❍	❍
Total	**13**	**15**	**20**	**17**	**4**

● Yes.
❍ No.
Source: OECD (2007), OECD International Budget Practices and Procedures Database, *www.oecd.org/gov/budget/database*.

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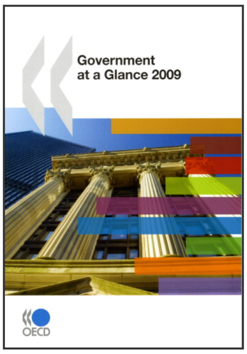

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