

In order to improve fiscal discipline, many countries have adopted medium-term budget and/or expenditure frameworks that typically span between three and five years, including the budgeted fiscal year. The medium-term perspective may include estimates of revenues and expenditures and/or targets or ceilings for spending. It signals the direction of policy and funding changes and gives actors time to adjust. It also helps identify room in the budget that can be allocated for new and existing programmes. Thus, it can enable decision makers to consider the cost of competing programmes before they make funding decisions, while increasing the predictability of funding during programme implementation. OECD member countries that are members of the European Union are required to report medium-term objectives; however, legislatures may or may not incorporate these when formulating the budget.

While there is a consensus about the importance of a medium-term perspective in the budget process and general agreement about the use of expenditure estimates, different opinions exist on the use of expenditure ceilings. Whereas expenditure estimates capture information on the cost of existing policies and programmes and form the baselines for the following years' budgets, expenditure ceilings provide a top-down constraint on spending in future years.

The impact of a medium-term perspective in the budget depends on the credibility of the expenditure estimates (and ceilings) as well as how this information is used by decision makers and by civil society observers. Failure to achieve medium-term budget objectives is often related to weak arrangements surrounding the preparation, legislation and implementation of budgetary targets.

Medium-term expenditure estimates are produced in all but one OECD country, most often at an aggregate level. In comparison, the use of multi-year ceilings is less common, although they are still used by two-thirds of OECD member countries. The strength of the medium-term perspective adopted by countries varies greatly across OECD member countries.

Methodology and definitions

The indicators 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, and refer to the central level of government. Survey respondents were senior budget officials. Responses represent the countries' own assessments of current practices and procedures. Some European Union member country responses reflect practices for

domestic procedures, while other countries' responses capture practices for European Union Convergence Reporting.

The index measures the extent to which countries have developed a medium-term perspective in their budget process. It contains the following variables (weights in parentheses): whether countries present multi-year expenditure estimates in the annual budget (16.7%), the number of years the estimate covers (16.7%), how often estimates are updated (16.7%), how estimates are extrapolated (16.7%); and whether there are multi-year targets or ceilings (11.1%), their coverage (11.1%) and how often they are revised (11.1%). The index ranges between 0 (no medium-term perspective) and 1 (highly developed medium-term perspective). The composite index does not capture whether the framework includes performance information, or its impact on budget outcomes such as fiscal discipline and allocative efficiency. See Annex C for a description of the methodology used to construct the index. The variables comprising the indexes and their relative importance are based on expert judgements. They are presented with the purpose of furthering discussion, and consequently may evolve over time.

Further reading

OECD (2002), "OECD Best Practices for Budget Transparency", *OECD Journal on Budgeting*, Vol. 1, No. 3, OECD, Paris, pp. 7-14.

OECD (Forthcoming), *Budgeting Practices and Procedures in OECD Countries*, OECD, Paris.

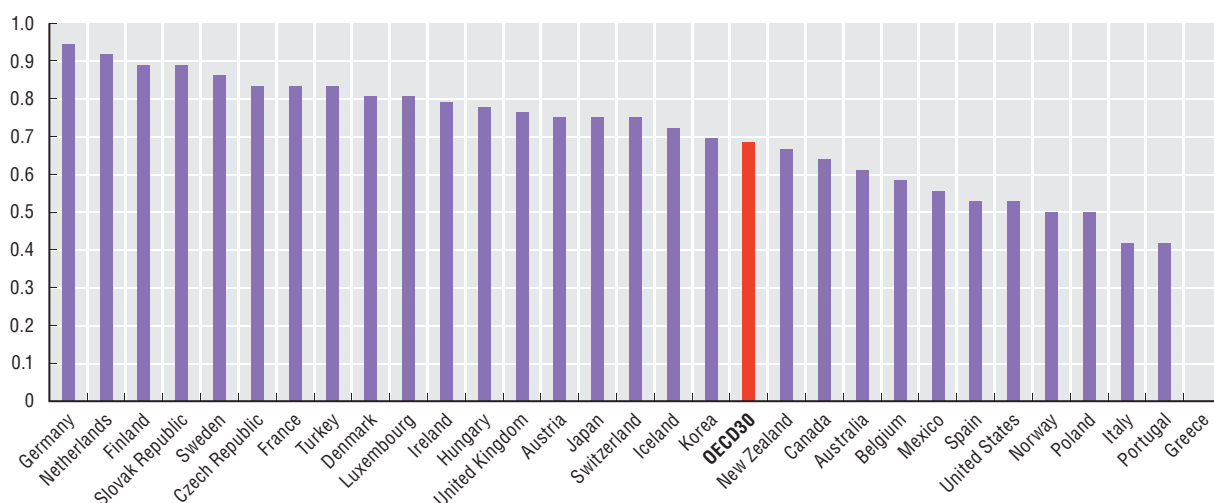
Note

19.1: Based on Q.16 "Does the annual budget documentation submitted to the legislature contain multi-year expenditure estimates?" and Q.20 "Are there multi-year expenditure targets or ceilings?". In Ireland, ministry level ceilings are presented for capital expenditures.

19.1 Medium-term budget perspective at the central level of government (2007)


Level at which estimates presented	Level at which ceilings are presented					Total
	Aggregate	Ministry	Line-item	Other	None	
Aggregate	Austria, Japan, Mexico, Switzerland			Belgium, France, Hungary	Italy, Poland, Spain	10
Ministry		Slovak Republic, United Kingdom		Ireland, Turkey	United States	5
Line-item	Finland, Luxembourg, Netherlands New Zealand, Sweden		Germany	Denmark	Australia, Canada	9
Other	Iceland, Korea	Czech Republic			Norway, Portugal	5
None					Greece	1
Total	11	3	1	6	9	

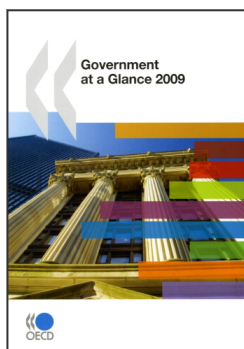
19.2 Use of medium-term perspective in the budget process at the central level of government (2007)



Note: This index measures the extent to which countries have developed a medium-term perspective in their budget process. However, it does not evaluate whether this perspective has been effective at achieving budget outcomes such as fiscal discipline and allocative efficiency.

Source: OECD (2007), OECD International Budget Practices and Procedures Database, www.oecd.org/gov/budget/database.

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