

### Medium-term expenditure frameworks

Medium-term expenditure frameworks (MTEFs) help central/federal government organisations to adopt a *medium term budgetary perspective* rather than solely an annual one. MTEFs typically span a period of three to five years, including the budgeted fiscal year, and combine prescriptive yearly ceilings with descriptive forward estimates.

There is an international consensus about the importance of adopting a medium-term perspective in the budget process. In the first place, MTEFs are a key element available to central budget authorities to help manage expenditures across central government and ensure fiscal discipline: expenditure estimates capture information on the cost of existing policies and programmes and form the baselines for the following years' budgets, while expenditure ceilings provide a top-down constraint on spending in future years. MTEFs also help control spending by allowing for the incorporation of multi-year policies that may require an extended time horizon for implementation, such as large capital projects, new programmes, and organisational restructures. Furthermore, from the point of view of line ministry and agency managers, the medium-term perspective signals the direction of policy and funding changes thereby giving them time to adjust and better plan their operations.

The impact of a medium-term perspective in the budget, however, depends ultimately on the credibility of the expenditure estimates and ceilings as well as how this information is used by decision makers and members of civil society. 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 ceilings are set in all but four OECD countries (Belgium, Israel, Hungary and Luxembourg), most often spanning a period of four years. The strength of these frameworks varies greatly across OECD member countries, reflected by the degree to which they are stipulated in legislation, decided by the executive or the legislative, and subsequently monitored by the legislative or independent bodies. Most often, expenditure ceilings are set for total aggregate expenditures. Some countries (Austria, Germany, Italy, Korea, the Netherlands, and New Zealand) have additional ceilings in place by programme, sector, and/or organisation. In order for MTEFs to be effective, monitoring and enforcement mechanisms should be in place whereby the executive reports to the legislature or an independent fiscal institution on compliance.

#### Methodology and definitions

Data refer to 2012 and draw upon country responses to questions from the 2012 OECD Survey on Budgeting Practices and Procedures. Survey respondents were predominately senior budget officials in OECD member countries. Responses represent the countries' own assessments of current practices and procedures. Data refer only to central/federal governments and exclude budgeting practices at state/local levels.

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.

The composite index in Figure 4.4 contains 10 variables that cover information on the existence medium-term perspective in the budget process, the number of years the estimate covers, the types of expenditures included in the frameworks, the possibility of carry over unused funds from one year to another and how they are monitored. It should be noted that the index does not purport to measure the overall quality of MTEF systems but is descriptive in nature. Annex C contains a description of the methodology used to construct this index, including the specific weights assigned to each variable.

#### Further reading

- OECD (2013, forthcoming), *Budgeting Practices and Procedures in OECD Countries*, OECD Publishing, Paris.
- OECD (2002), "OECD Best Practices for Budget Transparency", *OECD Journal on Budgeting*, Vol. 1/3, pp. 7-14, <http://dx.doi.org/10.1787/budget-v1-art14-en>.
- World Bank (2013), *Beyond the Annual Budget – Global Experience with Medium-Term Expenditure Frameworks*, International Bank for Reconstruction and Development, The World Bank, Washington, DC, <http://dx.doi.org/10.1596/978-0-8213-9625-4>.

#### Figure and table notes

Data not available for Iceland

4.3: In the case of Germany the legal foundation of the MTEF is the *Finanzplan* which is discussed in parallel with the parliamentary approval of the budget, it includes the budget ceilings. In the case of the Netherlands, organisational expenditures are included in the total and sector expenditures for the Netherlands

4.4: Index country scores for Belgium, Hungary, Israel and Luxembourg are 0 as they reported not having an MTEF in place.

Information on data for Israel: <http://dx.doi.org/10.1787/888932315602>.


## 4. BUDGETING PRACTICES AND PROCEDURES

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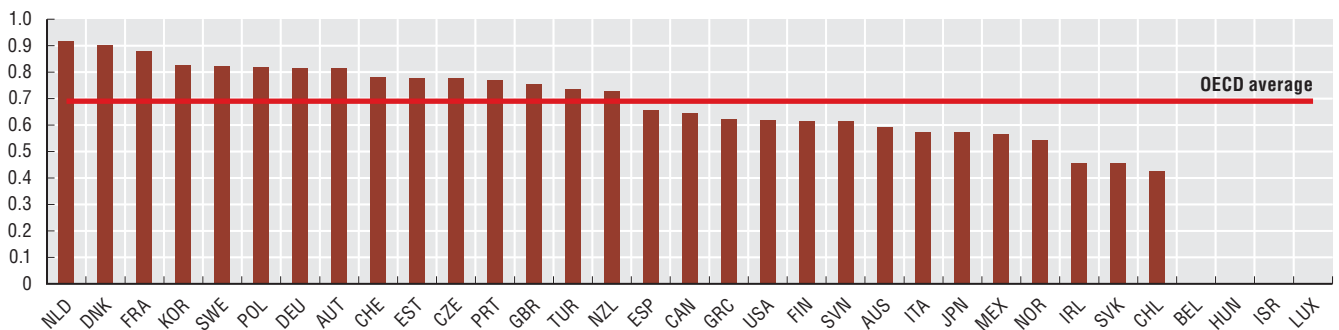
#### 4.3. Medium-term perspective in the budget process at the central level of government (2012)

	Existence and legal basis of MTEF	Length of ceilings (including upcoming fiscal year)	Target(s) of expenditure ceilings		
			Total expenditures	Programme or sector expenditures	Organisational expenditures
Australia	◇	4 years	✓		
Austria	●	4 years	✓	✓	
Belgium	○	x	x	x	x
Canada	◇	3 years			✓
Chile	◇	3 years	✓		
Czech Republic	■	3 years			
Denmark	●	4 years		✓	
Estonia	◇	4 years			✓
Finland	◇	4 years	✓		
France	●	3 years		✓	
Germany	■	4 years	✓	✓	✓
Greece	●	5 years			✓
Hungary	○	x	x	x	x
Ireland	◇	3 years			✓
Israel	○	x	x	x	x
Italy	◇	3 years	✓	✓	
Japan	◇	3 years	✓		
Korea	●	5 years	✓	✓	
Luxembourg	○	x	x	x	x
Mexico	●	5 years	✓		
Netherlands	●	4 years	✓	✓	
New Zealand	◇	4 years	✓	✓	
Norway	◇	6 or more years	✓		
Poland	●	4 years			
Portugal	●	4 years		✓	
Slovak Republic	■	3 years			✓
Slovenia	□	4 years	✓		
Spain	■	3 years	✓		
Sweden	■	3 years	✓		
Switzerland	●	4 years	✓		
Turkey	■	3 years	✓		✓
United Kingdom	◇	4 years			✓
United States	●	6 or more years		✓	
Russian Federation	□	3 years	✓	✓	✓
<b>Total OECD</b>			<b>17</b>	<b>10</b>	<b>8</b>
● Yes in a law which stipulates both the existence of a MTEF and budget ceilings	11				
■ Yes in a law stipulating the creation of a MTEF which should be based on budget ceilings	6				
□ Yes in a law stipulating that spending thresholds should not exceed medium term estimates	1				
◇ Yes in a strategy/policy stipulating the MTEF and/or budget ceilings	11				
○ No	4				
x Not applicable (e.g. No MTEF in place)					


Source: 2012 OECD Survey on Budgeting Practices and Procedures.

StatLink  <http://dx.doi.org/10.1787/888932943419>

#### 4.4. Use of a medium-term perspective in the budget process (2012)



Source: 2012 OECD Survey on Budgeting Practices and Procedures.

StatLink  <http://dx.doi.org/10.1787/888932942184>



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