

The budget process generally consists of four stages. The first stage entails the formulation of the executive's budget proposal; the second stage involves the parliamentary discussion of the proposal and approval of the budget law. In the third stage, the proposal is implemented, and in the fourth stage, the execution of the budget is evaluated.

Budget approval is the responsibility of the national legislature. The active engagement of the parliament in the budget process is considered to be an essential part of democracy. However, amendments by the congress to the budget could have negative consequences on fiscal policy outcomes. Members of the legislature could have a short-term horizon when deciding on resources allocation. Also, the legislature's interests may be focused on maximising budget spending for constituencies. Misalignment of incentives between the executive and the legislature is often the biggest concern at the budget parliamentary approval stage.

LAC and OECD countries incorporate similar components in their budget submission to parliament. In the case of LAC countries, over 75% include medium-term fiscal policy objectives, medium-term perspectives on total revenue and expenditure, macroeconomic assumptions and budget priorities. The main difference between both groups of countries is how detailed the appropriations submitted for legislative approval are. In the case of OECD member countries 87.8% of them submit clearly defined budgetary appropriations to parliament compared to 68.7% in the LAC region. Mexico is the only LAC country that includes the long-term perspective (more than ten years) on total revenue and expenditure when submitting documents to the congress.

Budget system laws establish the formal powers of the legislature and the mechanisms for decision making throughout the budgetary process. Legal constraints and budgetary practices vary greatly across countries. In nearly half of LAC countries, the legislature has unrestrained budgetary amendment authority, meaning that the parliament can introduce changes that may increase spending or reduce revenues, thereby increasing the risk of worsening the fiscal situation and increasing public debt. In slightly more than one third of LAC countries, legislative power is restricted to cutting existing items. Colombia is the only country in the region where the parliament can modify the executive budget proposal if expenditures have corresponding revenue to justify it.

If the budget is not approved by the legislature before the start of the fiscal year, 35% of LAC countries, among them Argentina, Dominican Republic and Panama, apply the previous year's budget on an interim basis. For almost a

third of LAC countries, including Costa Rica, Peru and Chile, the executive's budget proposal would take effect. In other specific cases, such as Guatemala, the previous year's budget applies but can be modified by the legislature; and in the case of Paraguay, the previous year's budget applies for the entire fiscal year.

Methodology and definitions

Data refer to 2013, drawing on country responses to the 2013 OECD Survey of Budget Practices and Procedures. Respondents were predominantly senior budget officials in LAC countries and OECD member countries. Responses represent the countries' self-assessments of current practices and procedures. OECD totals are based on responses by 33 OECD member countries. Data refer only to central/federal governments and exclude the sub-national level. An allocation is the designation of funds in the budget to a government programme or organisation.

The executive's budget proposal is developed by the CBA following negotiations and initial estimations provided by line ministries/agencies. The nature of the executive's budget proposal can vary from country to country. The budget proposal encompasses the main executive's budget proposal, as well as any supporting documents that are linked to it.

The terms "legislature", "parliament" and "congress" are used as synonyms to indicate a country's law-adopting body, even though the term "parliament" is more appropriate in parliamentary systems of governance, and "legislature" or "congress" is more often used in countries with presidential systems.

Further reading

Santiso, C. and M. Varea (2013), "Strengthening the Capacities of Parliaments in the Budget Process", Policy Brief No. IDB-PB-194, Inter-American Development Bank, Washington, DC.

Hallerberg, M., C. Scartascini and E. Stein (2009), *Who Decides the Budget? A Political Economy Analysis of the Budget Process in Latin America*, Inter-American Development Bank, Washington, DC.

Figure notes

5.8: According to Colombian law, the parliament can modify the executive budget proposal if an expenditure has a corresponding revenue to justify it.

5.7. Elements included in budget documents presented to the legislature, 2013

Country	Medium-term fiscal policy objectives	Macroeconomic assumptions	Budget priorities	Non-financial performance targets	Medium-term perspective on total revenue & expenditure	Long-term perspective on total revenue and expenditure (10+ years)	Clearly defined appropriations for legislature vote	Linkage of appropriations to administrative units	Text of legislation of policies proposed in budget
Argentina	●	●	●	●	●	○	●	●	○
Barbados	○	○	○	○	○	○	●	●	○
Brazil	●	●	●	●	●	○	●	●	●
Chile	●	●	●	●	●	○	●	●	●
Colombia	●	●	●	○	○	○	○	●	●
Costa Rica	●	●	●	●	●	○	●	●	●
Dominican Republic	●	●	●	○	●	○	●	●	●
Ecuador	○	●	○	○	●	○	●	○	○
El Salvador	●	●	●	○	●	○	○	●	○
Guatemala	●	●	●	●	●	○	○	●	●
Haiti	○	●	●	●	●	○	●	●	●
Honduras	●	●	●	●	●	○	●	○	●
Jamaica	●	●	●	○	●	○	●	●	○
Mexico	●	●	●	●	●	●	●	●	●
Panama	○	○	●	○	○	○	○	○	○
Paraguay	●	●	●	●	●	○	○	○	○
Peru	●	●	●	○	○	○	○	○	○
LAC total									
●	13	15	15	9	13	1	11	12	9
○	4	2	2	6	4	16	6	5	6
OECD total									
●	31	30	31	24	25	8	29	29	19
○	2	3	2	9	8	25	4	4	14

Key:

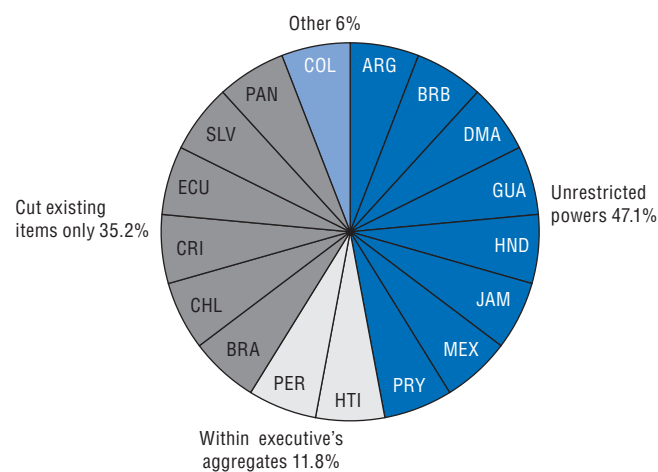
● Yes

○ No

Source: OECD (2013), Survey of Budget Practices and Procedures.

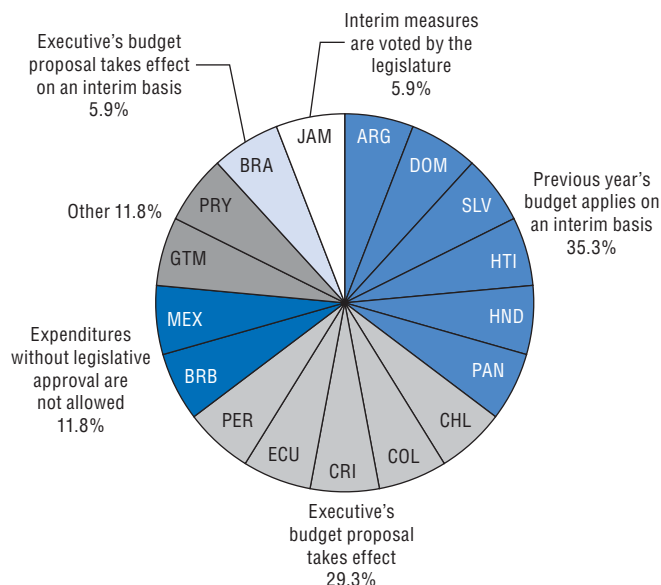
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5.8. Formal powers of the legislature to amend the budget proposed by the executive, 2013

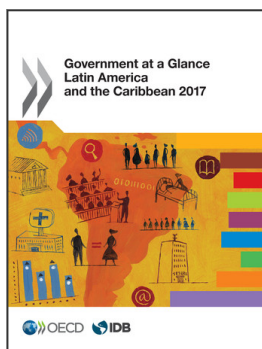


Source: OECD (2013), Survey of Budget Practices and Procedures
StatLink <http://dx.doi.org/10.1787/888933431204>

5.9. Consequences if the budget is not approved by the legislature, 2013



Source: OECD (2013), Survey of Budget Practices and Procedures
StatLink <http://dx.doi.org/10.1787/888933431214>



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