PRINCIPLES FOR PUBLIC FINANCIAL MANAGEMENT

Asia-Pacific Finance and Development Institute
International Lecture Series 2019
8 October

Hans van Rijn
Public Management, Financial Sector and RCI Division
East Asia Department
Asian Development Bank
Session 1(a) – Public Financial Management

- Role of PFM in Macroeconomic Management and Fiscal Policy
- Objectives of PFM
- Key Characteristics of Prudent PFM
- Key Principles for Strategic Budgeting
- Budget Cycle Management

Session 1 (b) – PFM Assessment and Reform Approaches
Session 2 – Local Government Debt Management

- International Experiences
- Policy context, tools and instruments
- Case-studies
I. Role of Public Finance in Macroeconomic Management

- Long term strategic vision for the economy
- Learning from doing during implementation (targets, monitoring, feedback loops)
- Transparency and accountability over policies, spending and results
II. What are the Objectives of Public Financial Management?

- Fiscal discipline
- Strategic resource allocation
- Operational efficiency
<table>
<thead>
<tr>
<th>Basic objectives</th>
<th>Levels of budget management</th>
<th>Type of objective</th>
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<tbody>
<tr>
<td>Aggregate Fiscal Discipline</td>
<td>Overall Expenditure Control</td>
<td>Macroeconomic</td>
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<td></td>
<td>Strong role of the Ministry of Finance</td>
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<td>Allocative Efficiency</td>
<td>Resource Allocation</td>
<td>Policy Objectives</td>
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<td>Strategic areas (intersectoral)</td>
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<td>Interministerial coordination</td>
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<td>Within strategic areas</td>
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<td>Programmes-Activities prioritisation</td>
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<tr>
<td>Operational Efficiency</td>
<td>Operations Service Delivery</td>
<td>Operational Performance</td>
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<td></td>
<td>Directorates, programmes, projects at the level of line managers</td>
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</table>
Sustainable Fiscal Policy

Budget year T:
- Total revenues
- Total expenditure
- Budget deficit

Increase in costs of total debt

Budget years T +1,2,3:
- Total revenues
- Increase in total expenditure
- Increase in budget deficit

Further increase in costs of total debt

Interest payments
III. Main Characteristics of Good PFM

- Comprehensive
- Predictable
- Accountable
- Transparent
- Clear, consistent, affordable
- Political engagement
Underlying Problem: The Budget as a Common Property Resource

- National budget is subject to the tragedy of the commons;
- For every stakeholder, the incentive is to maximise spending rights, because the cost is paid by pooled resources;
- Detrimental to collective welfare
Mitigation Against Common Property Dilemma

The “Budget Institutions Solution”:

- Formal commitment to a common fiscal policy and development strategy before negotiating individual shares
- Therefore a “bounded” (restricted) negotiation strategy
- Maximum transparency over the Fiscal Policy, the Strategy, the Budget & Results
Budget vs. Budget Process

- Important distinction
- Budget is a legal document
- Budget process identifies the steps for preparation, implementation and monitoring of the document
IV. From Policy to Outcomes: The Budget Cycle

Economic Analysis!
Linking Policy to Delivery

Long-Term Development Plan

MTFF / MTBF

Annual Budgets

Goods and Services
V. Strategic, Policy-Based Budgeting

- Wide but structured participation in the budget process, within a carefully crafted time-table ("fiscal calendar")

- Comprehensive, multi-year perspective in fiscal planning, and budget management (minimize off-budget and quasi-fiscal activity)

- Medium Term Fiscal Framework, Medium Term Budget Framework
V-a. A Structured Budget Calendar

Q1: REPORTING
Spending statement; results reports

Q2: STRATEGIC PHASE
Fiscal policy, strategy, ceilings

Q3: DETAILED PREPARATION
Sector submissions (within ceilings), negotiation with MoF

Q4: APPROVAL
Cabinet legislature

Cabinet Decision on Ceilings based on agreed fiscal policy & strategy

Budget Circular No. 1
Budget Circular No. 2
V-b. Medium Term Fiscal Framework

- Aggregate 3-5 year framework, covering the key aggregates of Central Government Financial Operations
- Revenues, expenditures, planned deficit or surplus, levels of borrowing
- Illustration: Table 2 in the IMF’s Article IV Consultations
### Table 2. Korea: Medium-Term Projections, 2014–2021

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<td><strong>Real GDP (percent change)</strong></td>
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<td>Total domestic demand</td>
<td>3.3</td>
<td>2.6</td>
<td>2.7</td>
<td>3.0</td>
<td>3.1</td>
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<td>Final domestic demand</td>
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<td>Stock building 1/</td>
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<td>Net foreign balance 1/</td>
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<td>-0.3</td>
<td>-0.3</td>
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<td><strong>Prices, period average (percent change)</strong></td>
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<td>Consumer price</td>
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<td>GDP deflator</td>
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<td>0.4</td>
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<td><strong>Savings and investment (in percent of GDP)</strong></td>
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<td>Gross national savings</td>
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<td><strong>Money and credit (end of period)</strong></td>
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<td>Credit growth 2/</td>
<td>7.4</td>
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<td>6.7</td>
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<td>6.1</td>
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<td><strong>Consolidated central government (in percent of GDP)</strong></td>
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<td>Revenue</td>
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<td>19.8</td>
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<td>Net lending (+) / borrowing (-)</td>
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<td>Excluding Social Security funds</td>
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<td>-2.4</td>
<td>-2.3</td>
<td>-2.0</td>
<td>-1.4</td>
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<td><strong>Trade (percent change)</strong></td>
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<td>Merchandise exports</td>
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<td>Volumes</td>
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<td>Merchandise imports</td>
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<td>Volumes</td>
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<td>2.8</td>
<td>3.6</td>
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<td>Terms of trade</td>
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<td>12.0</td>
<td>29.0</td>
<td>-1.8</td>
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<td><strong>Balance of payments (in billions of U.S. dollars)</strong></td>
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<td>Current account</td>
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<td>105.9</td>
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<td>120.3</td>
<td>123.4</td>
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<td>117.3</td>
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<td>Merchandise exports</td>
<td>613.0</td>
<td>548.8</td>
<td>321.5</td>
<td>541.9</td>
<td>560.6</td>
<td>581.7</td>
<td>604.9</td>
<td>625.7</td>
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<td>Merchandise imports</td>
<td>524.1</td>
<td>428.5</td>
<td>398.3</td>
<td>423.7</td>
<td>443.6</td>
<td>463.4</td>
<td>486.8</td>
<td>511.8</td>
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<td>External debt</td>
<td>In billions of U.S. dollars 4/</td>
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<td>(in percent of GDP)</td>
<td>424.4</td>
<td>395.4</td>
<td>384.2</td>
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<td>367.4</td>
<td>361.8</td>
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<td>Of which: Short-term (end of period)</td>
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<td>28.7</td>
<td>27.9</td>
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<td>24.6</td>
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<td>21.9</td>
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<td>Debt service ratio 5/</td>
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<td>5.2</td>
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</table>

1/ In billions of U.S. dollars
2/ In percent of GDP
3/ In billion of U.S. dollars
4/ In billion of U.S. dollars
5/ In percent of GDP
V-c. Medium Term Budget Framework

- Breakdown, by agency / unit, of expected revenues and spending
- Baseline scenario and new measures (possible changes in revenues and/or spending)
- Latter especially relevant for windfall economies and/or economies vulnerable to exogenous shocks
# Budget Classification System

<table>
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<tr>
<th>Administrative Classification</th>
<th>Economic Classification</th>
<th>Functional Classification</th>
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<tr>
<td>Title</td>
<td>Chapter</td>
<td>Article</td>
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<td>Ministry</td>
<td>Managing Unit</td>
<td>Main Classification</td>
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<td>Agriculture &amp; Forestry</td>
<td>DG for Agriculture</td>
<td>Subclassification</td>
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<td></td>
<td>Expenses</td>
<td>Suppl Information</td>
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<td></td>
<td>Employee Compensation</td>
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<td></td>
<td>Wages and Salaries in Cash</td>
<td>Group</td>
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<td>Economic Affairs</td>
<td>Class</td>
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- **Secondary Function**: Agriculture, Forestry, Fisheries, Hunting
V. Strategic Planning

- Setting the Government’s medium-term policy agenda (coherence of objectives!)
- Accompanied by corresponding budget allocations
- Within the boundaries set by the MTBF
VI. Effectiveness in Budget Execution

- Good budget preparation (comprehensiveness, credibility)
- Predictability and control (minimize leakages)
- Accurate accounting, recording and reporting
- External oversight (audit, public accounts committees)
VI-a. Controlled Budget Execution in Five Steps

- Authorisation
- Commitment
- Verification
- Payment authorization
- Cash payment
VI. External Audit
From Policy to Outcomes: The Budget Cycle

- Policy formulation
- Policy statement
- Budget compilation
- Budget
- Expenditure on activities
- Revenue collection
- Outcomes

Process:
- From Policy to Outcomes:
- The Budget Cycle
**References for Good Practices**

**Public Financial Management**

http://www.oecd.org/dac/effectiveness/pfm.htm


**Open Budget Index**
APPROACHES TO THE ASSESSMENT AND REFORM OF PUBLIC FINANCIAL MANAGEMENT SYSTEMS

Asia-Pacific Finance and Development Institute
Shanghai, People’s Republic of China
1 June, 2018

Hans van Rijn
Principal Public Sector Management Specialist
East-Asia Department, Asian Development Bank
Presentation Outline

- Introduction
- Commonly used assessment frameworks
- Place in budget cycle and scope of different assessments
PFM Assessments: Why and What?

- Transparency and accountability
- A good PFM system is essential for achievement of developmental / policy objectives
- Formal aspects and composition / poverty focus
Type of Assessments

- Public Expenditure Reviews
- Code of Good Practices on Fiscal Transparency
- Public Expenditure and Financial Accountability Framework (PEFA)
Place In The Budget Cycle

- Policy formulation
- Policy statement
- Budget compilation
- Budget
- Expenditure on activities
- Revenue collection
- Outcomes

Process Product Process Product Process Product
Public Expenditure Review (PER) in the Budget Cycle

PER in the budget cycle

- External audit (5)
- Accounting & reporting (4)
- Budget execution (3)
- Policy review (6)
- Strategic planning (1)
- Budget preparation (2)
Scope and Focus of a PER

- **Rationale** for public investments (efficiency / market failure, redistribution / equity) at macro or sector level
- Fiscal **sustainability** and **prioritization** of public expenditures (policy objectives, resource constraints)
- Institutional arrangements and **development outcomes**
Public Expenditure and Financial Accountability Assessment (PEFA) in the Budget Cycle

PEFA in the budget cycle

- Policy review (6)
- Strategic planning (1)
- Budget preparation (2)
- Budget execution (3)
- Accounting & reporting (4)
- External audit (5)
Scope and Focus of a PEFA Assessment

Analytical Framework underpinning the Performance Measurement Framework

An open and orderly PFM system supports
- Aggregate fiscal discipline
- Strategic allocation of resources
- Efficient service delivery

The core dimensions of an open and orderly PFM system are:
- Credibility of the budget
- Comprehensiveness and transparency
- Policy-based budgeting
- Predictability and control in budget execution
- Accounting, recording and reporting
- External scrutiny and audit

The key elements of the PFM system measure the core dimension of PFM performance
See list of indicators

The assessment provided by the Performance Measurement Framework

Assessment of the extent to which the existing PFM system supports the achievement of aggregate fiscal discipline, strategic allocation of resources and efficient service delivery.

Assessment of the extent to which PFM systems, processes and institutions meet the core dimensions of PFM performance.

The indicators measure the operational performance of the key elements of the PFM system against the core dimensions of PFM performance.
Code of Good Practices on Fiscal Transparency

- The Code cuts across the full budget cycle
- Identifies a set of principles and practices to help governments provide a clear picture of the structure and finances of government
PEFA and PFM Reforms

Compiled from Allen et al 2004
Phasing PFM Reforms

Platform Approach

Platform 1
A credible budget delivering a reliable and predictable resource to budget managers

Platform 2
Improved internal control to hold managers accountable

Platform 3
Improved linkage of priorities and service targets to budget planning and implementation

Platform 4
Integration of accountability and review processes for both finance and performance management.

Broad activities
Integration of budget (recurrent and capital budgets)
Strengthen macro and revenue forecasting
Streamline spending processes

Broad activities
Re-design budgeting classification system
Initial design of FMIS for core business processes
Define internal audit function

Broad activities
Re-design budget cycle (e.g., MTEF)
Pilot programme based budgeting and budget analysis
Further fiscal decentralisation

Broad activities
Full design of FMIS
Develop IT management strategy
Initial design of asset register

Enables a basis for accountability
Enables focus on what is done with money
Enables more accountability for performance management
References for Good Practices

**IMF’s Code of Good Practices on Fiscal Transparency**

**Report on Observation of Standards and Codes**

**Public Expenditure & Financial Accountability program (PEFA)**
http://pefa.org/en/dashboard

**Open Budget Index**
APPROACHES TO THE ASSESSMENT AND REFORM OF PUBLIC FINANCIAL MANAGEMENT SYSTEMS

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Hans van Rijn
Principal Public Sector Management Specialist
East-Asia Department, Asian Development Bank
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- Introduction
- Commonly used assessment frameworks
- Place in budget cycle and scope of different assessments
PFM Assessments: Why and What?

- Transparency and accountability
- A good PFM system is essential for achievement of developmental / policy objectives
- Formal aspects and composition / poverty focus
Type of Assessments

- Public Expenditure Reviews
- Code of Good Practices on Fiscal Transparency
- Public Expenditure and Financial Accountability Framework (PEFA)
Place In The Budget Cycle

1. **Policy formulation**
2. **Policy statement**
3. **Budget compilation**
4. **Budget**
5. **Expenditure on activities**
6. **Revenue collection**
7. **Outcomes**

**Process**

**Product**
Public Expenditure Review (PER) in the Budget Cycle

PER in the budget cycle

- Policy review (6)
- Strategic planning (1)
- Budget preparation (2)
- Budget execution (3)
- Accounting & reporting (4)
- External audit (5)
Scope and Focus of a PER

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- Fiscal **sustainability** and **prioritization** of public expenditures (policy objectives, resource constraints)
- Institutional arrangements and **development outcomes**
Public Expenditure and Financial Accountability Assessment (PEFA) in the Budget Cycle

PEFA in the budget cycle

Policy review (6)

External audit (5)

Strategic planning (1)

Accounting & reporting (4)

Budget preparation (2)

Budget execution (3)
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- Predictability and control in budget execution
- Accounting, recording and reporting
- External scrutiny and audit

The key elements of the PFM system measure the core dimension of PFM performance:
See list of indicators

The assessment provided by the Performance Measurement Framework:
- Assessment of the extent to which the existing PFM system supports the achievement of aggregate fiscal discipline, strategic allocation of resources and efficient service delivery.
- Assessment of the extent to which PFM systems, processes and institutions meet the core dimensions of PFM performance.
- The indicators measure the operational performance of the key elements of the PFM system against the core dimensions of PFM performance.
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Broad activities
Integration of budget (recurrent and capital budgets)
Strengthen macro and revenue forecasting
Streamline spending processes

Broad activities
Re-design budgeting classification system
Initial design of FMIS for core business processes
Define internal audit function

Broad activities
Re-design budget cycle (e.g., MTEF)
Pilot programme based budgeting and budget analysis
Further fiscal decentralisation

Broad activities
Full design of FMIS
Develop IT management strategy
Initial design of asset register

Enables a basis for accountability
Enables focus on what is done with money
Enables more accountability for performance management

Platform Approach

Enables a basis for accountability
Enables focus on what is done with money
Enables more accountability for performance management
References for Good Practices

IMF’s Code of Good Practices on Fiscal Transparency

Report on Observation of Standards and Codes

Public Expenditure & Financial Accountability program (PEFA)
http://pefa.org/en/dashboard

Open Budget Index
INTERNATIONAL EXPERIENCES WITH DEBT ANALYSIS AND MONITORING

Asia-Pacific Finance and Development Institute
Shanghai, People’s Republic of China
2019 International Lecture Series
8 October

Hans van Rijn
Public Management, Financial Sector and RCI Division
East Asia Department
Asian Development Bank

This part of the presentation draws on work by Dr Lili Liu and Dr Juan Pradelli
Outline

- **Policy Issues Concerning Public Finances and Debt: Some Examples**
- **Tools for Debt Monitoring and Analysis**
  - Medium-Term Fiscal Framework (MTFF)
  - Debt Sustainability Analysis (DSA)
  - Medium-Term Debt Management Strategy (MTDS)
- **Analytical Tools**
  - Projection Methods Using Identities and Formulas
  - Fiscal and Debt Variables
  - Historical Data and Projections
  - Implementing Analytical Tools
- **International Experience: Some Examples**
  - Malaysia: Formulating a fiscal consolidation program
  - Indonesia: Allocating funds among competing spending programs
  - India: Managing contingent liabilities to restore fiscal health
Policy Context: Country Specific

- **Malaysia**: National Government’s finances deteriorated after the 2008 Global Financial Crisis; MTFF and DSA to quantify the fiscal adjustment needed to restore fiscal sustainability

- **India**: States had contingent liabilities (arrears, guarantees, pensions, SOEs, PPP commitments) to be managed; DSA to quantify the fiscal adjustment needed to manage expenditure commitments
Tools: Purpose and Use

- Results generated are a basis for analyzing economic outlook and policy options
  - Help making decisions on tax reform, revenue-sharing agreements, expenditure planning and rationalization, fiscal rules, borrowing framework, debt contracting and restructuring

- Tools require historical information on fiscal and debt variables
  - Data availability, definitions of variables (accounting or statistical)

- Tools go beyond published fiscal and debt information
  - Hidden and contingent liabilities, potential sources of debt and spending obligations
  - Annual budget versus multi-year projections that incorporate economic cycle, medium-term planning, structural changes, commodity price dynamics, etc.

- Tools utilize indicators and projections - and underpin scenarios
  - Modelling must be consistent with the specificities of the country’s economy and public-finance institutions
  - Models reflect empirical interactions among economic, fiscal, and debt variables.
  - Scenarios: baseline outlook, stress-scenarios, reforms and policy changes
Medium-Term Fiscal Framework (MTFF), Debt Sustainability Analysis (DSA), and Medium-Term Debt Management Strategy (MTDS)

**Analytical Tool**

- **MTFF**
  - Economic conditions, Revenue, Spending

- **DSA**
  - Debt, Budget balances

- **MTDS**
  - Debt, Borrowing Requirements and Financing Options, Market Development

**Objective and Possible Uses**

- **MTFF**
  - Resources available to finance public spending.
  - Monitoring of compliance with rules/targets on spending or budget deficits

- **DSA**
  - Financial viability of debt-financed budget deficits
  - Monitoring of compliance rules/targets on debt and borrowing

- **MTDS**
  - Identification of adequate debt instruments to borrow, given their cost-risk profile.
  - Absorption constraints imposed by market developments and investors’ appetite for government debt

**Involved Departments**

- Planning, Fiscal Policy and Budget
- Treasury and Debt Management
Debt-to-GDP depends on four elements:

- Public debt stock from the past, reflecting past borrowing choices
- Primary expenditure and revenues, reflecting current fiscal policies
- Cost of borrowing, represented by the average interest rate on debts
- Growth rate of GDP (used as a repayment-capacity indicator)
Projection Methods Using Identities and Formulas

\[
GBN_t = PE_t - R_t + \frac{i_t}{1+\hat{\gamma}_t} D_{t-1} + Am_t + NAFA_t + OFN_t
\]

- \( GBR_t \) is the gross borrowing requirements as share of GDP in year \( t \)
- \( PE_t \) is the primary expenditure (excluding interest payments) as share of GDP
- \( R_t \) is the revenue as share of GDP
- \( i_t \) is the average interest rate paid on debts
- \( \hat{\gamma}_t \) is the growth rate of nominal GDP
- \( Am_t \) is amortization payments (debt repayments) as share of GDP
- \( NAFA_t \) is the net acquisition of financial assets as share of GDP
- \( OFN_t \) is other funding needs as share of GDP

Borrowings depend on four elements:

- Budget deficits
- Amortization payments
- Financial investment and applications
- Other funding needs
Debt-to-GDP and borrowings are related.

Other extensions are possible:
- Foreign-currency denominated debts and valuation effects
- Different types of debts (e.g., loans, securities)
- Other repayment-capacity indicators (e.g., selected revenues)
- Contingent liabilities that are accounted as debts but do not provide resources to the Budget (e.g., guarantees)

Projection Methods Using Identities and Formulas

\[ D_t = \frac{1}{1+\hat{Y}_t} D_{t-1} + GBR_t - Am_t \]

- \( D_t \) is the public debt-to-GDP ratio at end of year \( t \)
- \( \hat{Y}_t \) is the growth rate of nominal GDP
- \( GBR_t \) is the gross borrowing requirements as share of GDP in year \( t \)
- \( Am_t \) is amortization payments (debt repayments) as share of GDP

Debt-to-GDP and borrowings are related.
Analytical Tools: Fiscal and Debt Variables

**Macro**

**Revenue**

Operating & Capital Budget

**Expenditure**

Operating & Capital Budget

**Debt**

Cash Flow and Financing

Existing Debts and New Debts

**Economic Activity**

**Revenues (current & property)**

Personal income tax, corporate income tax, property tax, taxes and charges, transfers, subsidies and funds for current purposes, other current revenues. Sale of assets, subsidies and funds for capital, other property revenues.

**Expenditures (current & property)**

Salaries and pensions, use of goods and services, subsidies, transfers, interest payments, capital expenditure.

**Sources of funds**

Fiscal balance (if surplus), borrowings, use of financial assets (e.g., use of budget surpluses from previous years, use of un-allocated funds, other use of assets and other revenues not related to debt).

**Uses of funds**

Fiscal balance (if deficit), principal amortization (debt repayments) from existing and new debts, other financing needs (e.g., capitalization of SOEs, contribution to extra-budgetary funds).

**Existing debts**

(in incurred in the past)

Debt stock and debt service (principal amortization and interest). Forecasts debt-by-debt.

**New debts**

(to be incurred in the projection horizon)

Borrowings, debt stock and debt service (principal amortization and interest). Forecasts debt-by-debt.
### Historical Data and Projections

Figures in million Malaysian Ringgit (MYR), unless otherwise specified.

<table>
<thead>
<tr>
<th>Historical Data</th>
<th>Projections</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2007</td>
</tr>
<tr>
<td>Nominal GDP</td>
<td>639,776</td>
</tr>
<tr>
<td>Growth nominal GDP (%)</td>
<td>11.5</td>
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<tr>
<td>Growth real GDP (%)</td>
<td>6.3</td>
</tr>
<tr>
<td>Inflation measured by GDP deflator (%)</td>
<td>4.9</td>
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<tr>
<td>Revenue</td>
<td>1,398,85</td>
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<tr>
<td>Tax revenue</td>
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<td>Nonpetroleum tax revenue</td>
<td>724,44</td>
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<td>Petroleum tax revenue</td>
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<td>Nontax revenue</td>
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<tr>
<td>Nonpetroleum nontax revenue</td>
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<tr>
<td>Petroleum nontax revenue</td>
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<td>Expenditure</td>
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<td>Operating expenditure</td>
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<td>Interest expenditure</td>
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<td>Wages and salaries (emoluments)</td>
<td>1,114,85</td>
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<tr>
<td>Transfers to sub-national govn and statutory bodies</td>
<td>1,426</td>
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<tr>
<td>Other expenditure in goods and services</td>
<td>3,258,7</td>
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<tr>
<td>Subsidies</td>
<td>146,11</td>
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<tr>
<td>Grants, pensions, and gratuities</td>
<td>135,81</td>
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<tr>
<td>Development expenditure (net of loan recoveries)</td>
<td>37,460</td>
</tr>
<tr>
<td>Primary budget balance</td>
<td>-7,747</td>
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</tbody>
</table>
## Historical Data and Projections

Figures in million Malaysian Ringgit (MYR), unless otherwise specified

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<tr>
<th></th>
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<tbody>
<tr>
<td></td>
<td>2007 2008 2009</td>
<td>2010(p) 2011(p) 2012(p) 2013(p) 2014(p) 2015(p)</td>
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<tr>
<td>Financing</td>
<td></td>
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<tr>
<td>DX-denominated net borrowing</td>
<td>20658 35594 47482</td>
<td>39046 27444 34641</td>
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<tr>
<td></td>
<td></td>
<td>44070 53254 68437</td>
</tr>
<tr>
<td>Gross issuance</td>
<td>54081 60000 100561</td>
<td>66744 86886 77323</td>
</tr>
<tr>
<td>Repayments</td>
<td>28281 24347 43661</td>
<td>27698 59442 42682</td>
</tr>
<tr>
<td></td>
<td></td>
<td>60194 53174 57553</td>
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<tr>
<td>Short term</td>
<td>2692 3062 3546</td>
<td>4320 4320 4320</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4320 4320 4320</td>
</tr>
<tr>
<td>MLT</td>
<td>25589 21284 40115</td>
<td>23378 55122 38362</td>
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<tr>
<td></td>
<td></td>
<td>55874 49394 53233</td>
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<tr>
<td>FX-denominated net borrowing</td>
<td>-4314 -474 -6418</td>
<td>0 0 0</td>
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<tr>
<td>Gross issuance</td>
<td>489 472 145</td>
<td>763 681 1355</td>
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<tr>
<td>Repayments</td>
<td>4803 946 6563</td>
<td>763 681 1355</td>
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<tr>
<td></td>
<td></td>
<td>1506 1825 1608</td>
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<tr>
<td>Short term</td>
<td>0 0 0</td>
<td>0 0 0</td>
</tr>
<tr>
<td></td>
<td></td>
<td>0 0 0</td>
</tr>
<tr>
<td>MLT</td>
<td>4803 946 6563</td>
<td>763 681 1355</td>
</tr>
<tr>
<td>Special receipts and use of assets</td>
<td>-827 414 -3000</td>
<td>0 0 0</td>
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<tr>
<td>Debt</td>
<td>266722 306437 3625201</td>
<td>401565 429009 463650</td>
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<tr>
<td></td>
<td>507720 569074 6249111</td>
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</tr>
<tr>
<td>DX-denominated debt</td>
<td>247120 286121 3486211</td>
<td>387667 415111 449752</td>
</tr>
<tr>
<td></td>
<td>493822 547076 6155131</td>
<td></td>
</tr>
<tr>
<td>Short term</td>
<td>3062 3546 4320</td>
<td>4320 4320 4320</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4320 4320 4320</td>
</tr>
<tr>
<td>MLT</td>
<td>244058 282576 3443011</td>
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<td>FX-denominated debt</td>
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<tr>
<td></td>
<td>13898 13898 13898</td>
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<tr>
<td>Short term</td>
<td>0 0 0</td>
<td>0 0 0</td>
</tr>
<tr>
<td></td>
<td></td>
<td>0 0 0</td>
</tr>
<tr>
<td>MLT</td>
<td>19602 20316 138988</td>
<td>13898 13898 13898</td>
</tr>
<tr>
<td>Stock-flow adjustment</td>
<td>3839 4121 8600</td>
<td>0 0 0</td>
</tr>
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<td></td>
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</table>

**Figures in % of GDP**

<table>
<thead>
<tr>
<th></th>
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<th>2010(p) 2011(p) 2012(p) 2013(p) 2014(p) 2015(p)</th>
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<tbody>
<tr>
<td>Debt</td>
<td>41.7 41.4 53.7</td>
<td>53.9 53.1 52.5</td>
</tr>
<tr>
<td></td>
<td>52.6 53.1 54.4</td>
<td></td>
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<tr>
<td>DX-denominated debt</td>
<td>38.6 38.7 51.6</td>
<td>52.0 51.3 50.9</td>
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<tr>
<td></td>
<td>50.4 51.1 51.8</td>
<td></td>
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<tr>
<td>Short term</td>
<td>0.5 0.5 0.6</td>
<td>0.6 0.5 0.5</td>
</tr>
<tr>
<td></td>
<td>0.4 0.4 0.4</td>
<td></td>
</tr>
<tr>
<td>MLT</td>
<td>38.1 38.2 51.0</td>
<td>51.4 50.8 50.4</td>
</tr>
<tr>
<td></td>
<td>50.7 51.4 52.9</td>
<td></td>
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<tr>
<td>FX-denominated debt</td>
<td>3.1 2.7 2.1</td>
<td>1.9 1.7 1.6</td>
</tr>
<tr>
<td></td>
<td>1.6 1.4 1.3</td>
<td></td>
</tr>
<tr>
<td>Short term</td>
<td>0.0 0.0 0.0</td>
<td>0.0 0.0 0.0</td>
</tr>
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<td></td>
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<td>1.6 1.4 1.3</td>
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</tbody>
</table>

Historical Data and Projections
Policy Context: Country Specific

- **Malaysia**: National Government’s finances deteriorated after the 2008 Global Financial Crisis; MTFF and DSA to quantify the fiscal adjustment needed to restore fiscal sustainability.

- **India**: States had contingent liabilities (arrears, guarantees, pensions, SOEs, PPP commitments) to be managed; DSA to quantify the fiscal adjustment needed to manage expenditure commitments.
Malaysia: Formulating a fiscal consolidation program

Challenges:
• Oil revenue declining, and non-discretionary spending pressures rising (especially off-budget programs, e.g., PPP, high-speed rail, pensions)
• Political concerns on adverse impacts of fiscal consolidation on GDP growth in a context of lower oil prices already contacting GDP

Two important policy initiatives (still insufficient to achieve targets, though):

Introducing Goods & Services Tax (VAT-like)

Rationalizing Subsidies (especially fuels & foodstuffs)
Challenges:
• Rising fiscal deficit in multiple measures, particularly rising revenue deficit and consolidated fiscal deficit that incorporated arrears
• Developing comprehensive fiscal adjustment programs to reverse fiscal decline
• On the expenditure module: (i) constructed arrears data to incorporate spending; (ii) developed separate sub-modules to project those liabilities that posed serious threat to fiscal health, including pension liabilities, and subsidies to SOEs
Developed sub-module for pension liabilities
• Pension/retirement benefits fastest growing expenditure component
• A separate pension expenditure module was lunched to develop a realistic projection of pension liabilities for the expenditure module
• The sub-module: developed HR data base, projected demographic trend of civil servants (retiring and new hiring), and experimented with parametric reform models to develop different forward pension spending scenarios

Annual Average Growth in Budget Components (FY1998-FY2002)
Developed sub-module for SOE subsidies

- State government support to SOEs through interest subsidies, and loan write-offs, and guarantees
- Sub-modules on contingent liabilities would be needed to develop for each of the important SOEs, for example, submodule for fiscal subsidies for power sector
- SOE monopoly in electricity transmission and distribution
- A separate sub-module of financial projection developed for the power sector SOE, including PPP commitment

### Financial Performance of State Electricity Board

![Financial Performance Chart](chart.png)
Recommended Reading

- [https://openknowledge.worldbank.org/handle/10986/12597](https://openknowledge.worldbank.org/handle/10986/12597)
THANK YOU

Q&A