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

Presentation Outline (morning)

- 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

Presentation Outline (afternoon)

- Session 2 – Local Government Debt Management
  - International Experiences
  - Policy context, tools and instruments
  - Case-studies

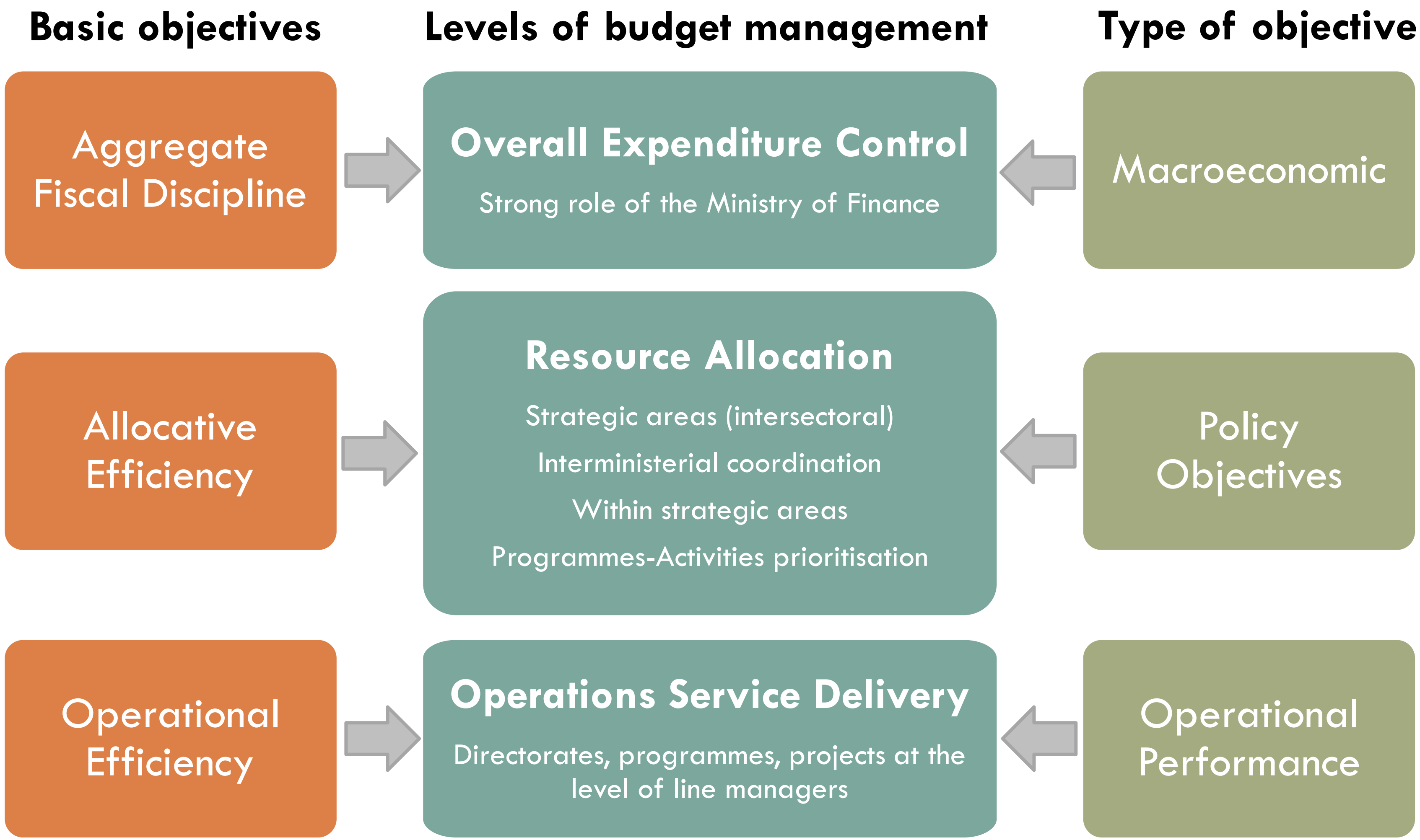
I. Role of Public Finance in Macroeconomic Management

- Long term strategic vision for the economy
- Learning from doing during implementation (targets, monitoring, feedback loops)
- Transparency and accountability over policies, spending and results

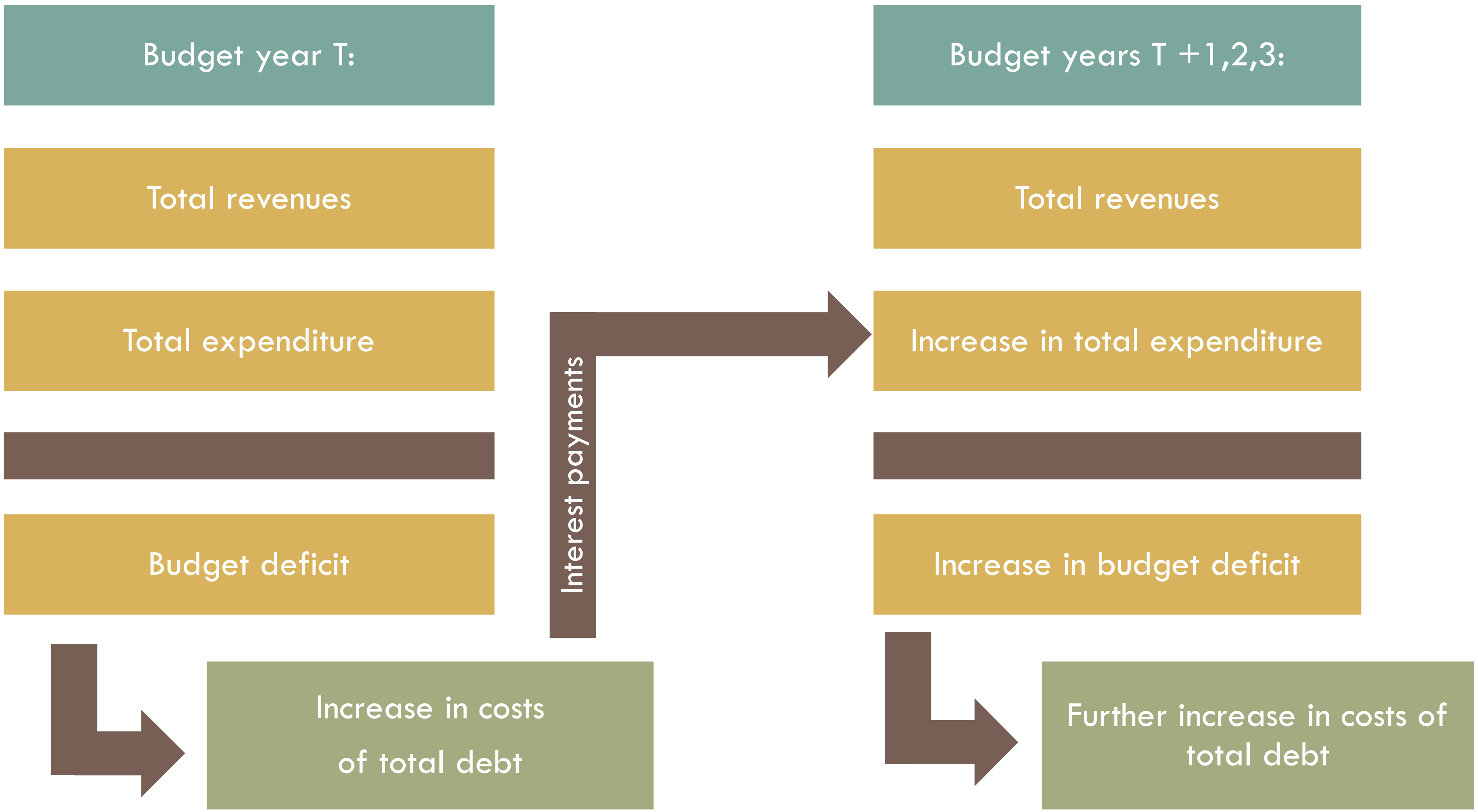
II. What are the Objectives of Public Financial Management?

- Fiscal discipline
- Strategic resource allocation
- Operational efficiency

PFM objectives, budget management and macroeconomic and fiscal policy



Sustainable Fiscal Policy



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

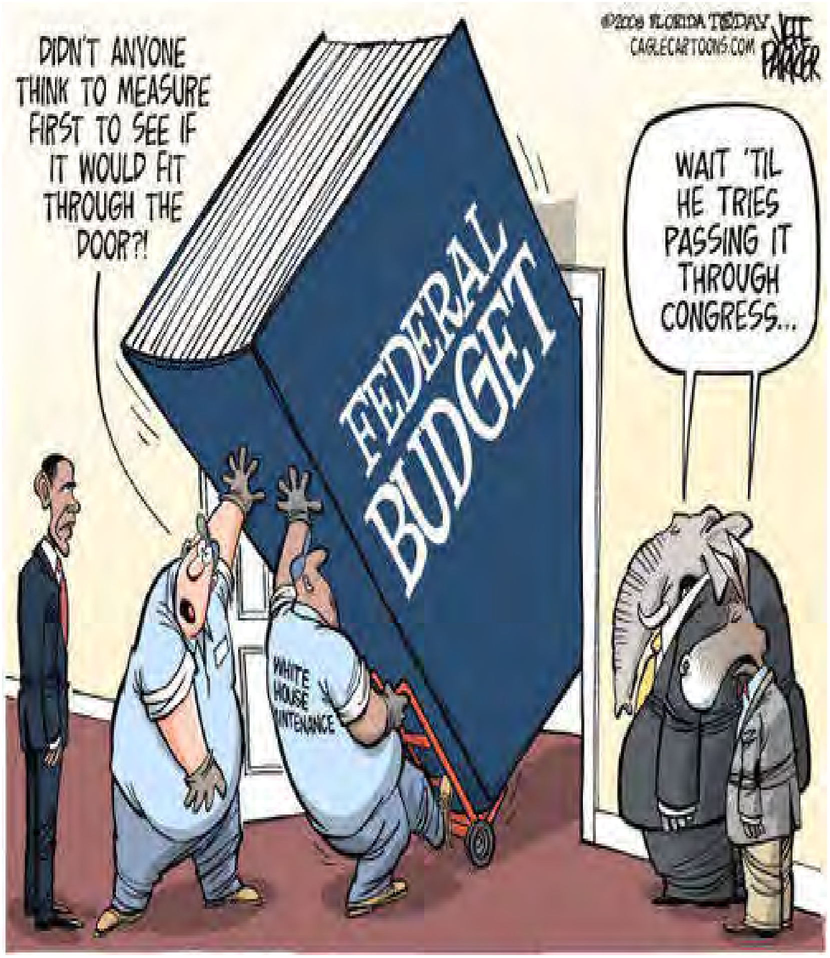
Mitigation Against Common Property Dilemma

The "Budget Institutions Solution":

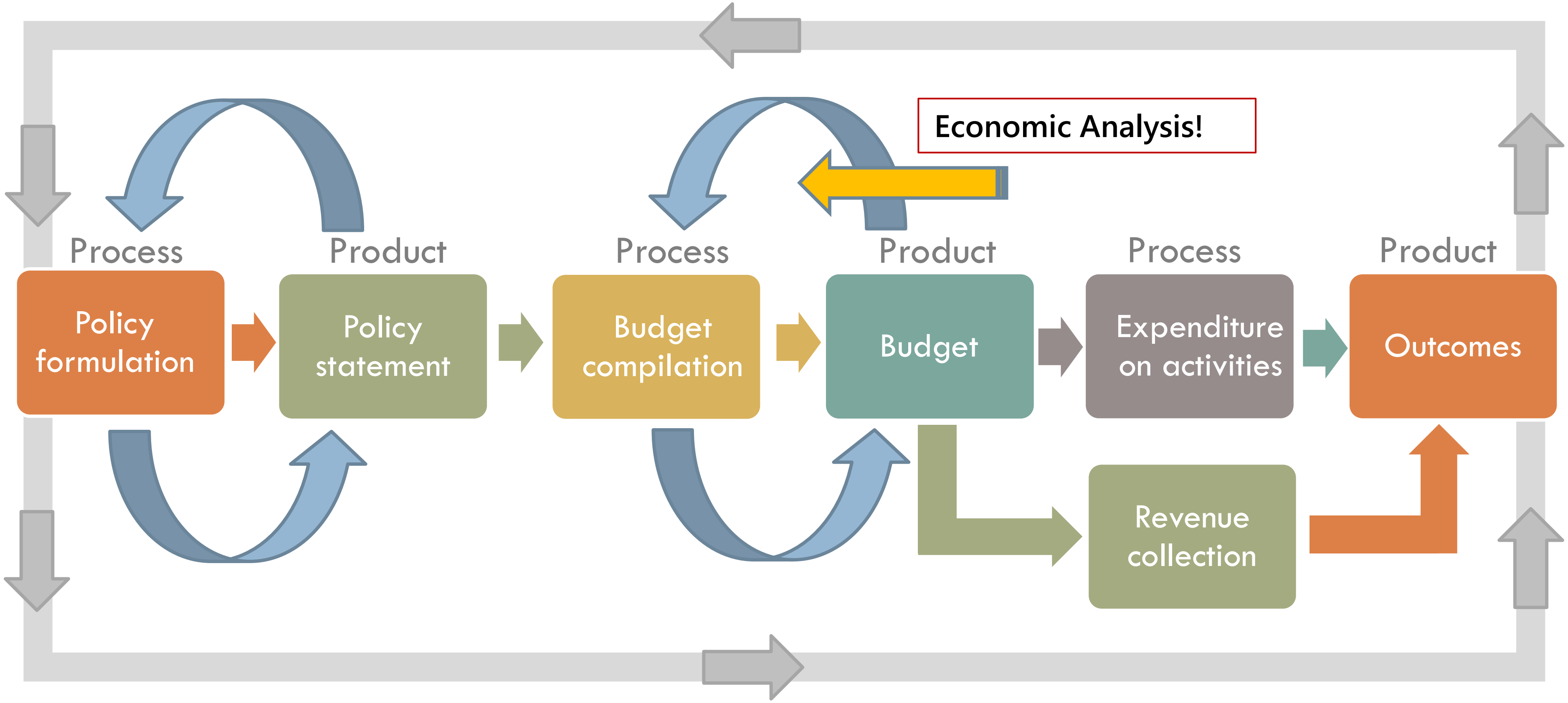
- Formal commitment to a common fiscal policy and development strategy <u>before</u> negotiating individual shares
- Therefore a "bounded" (restricted) negotiation strategy
- Maximum transparency over the Fiscal Policy, the Strategy, the Budget & Results

Budget vs. Budget Process

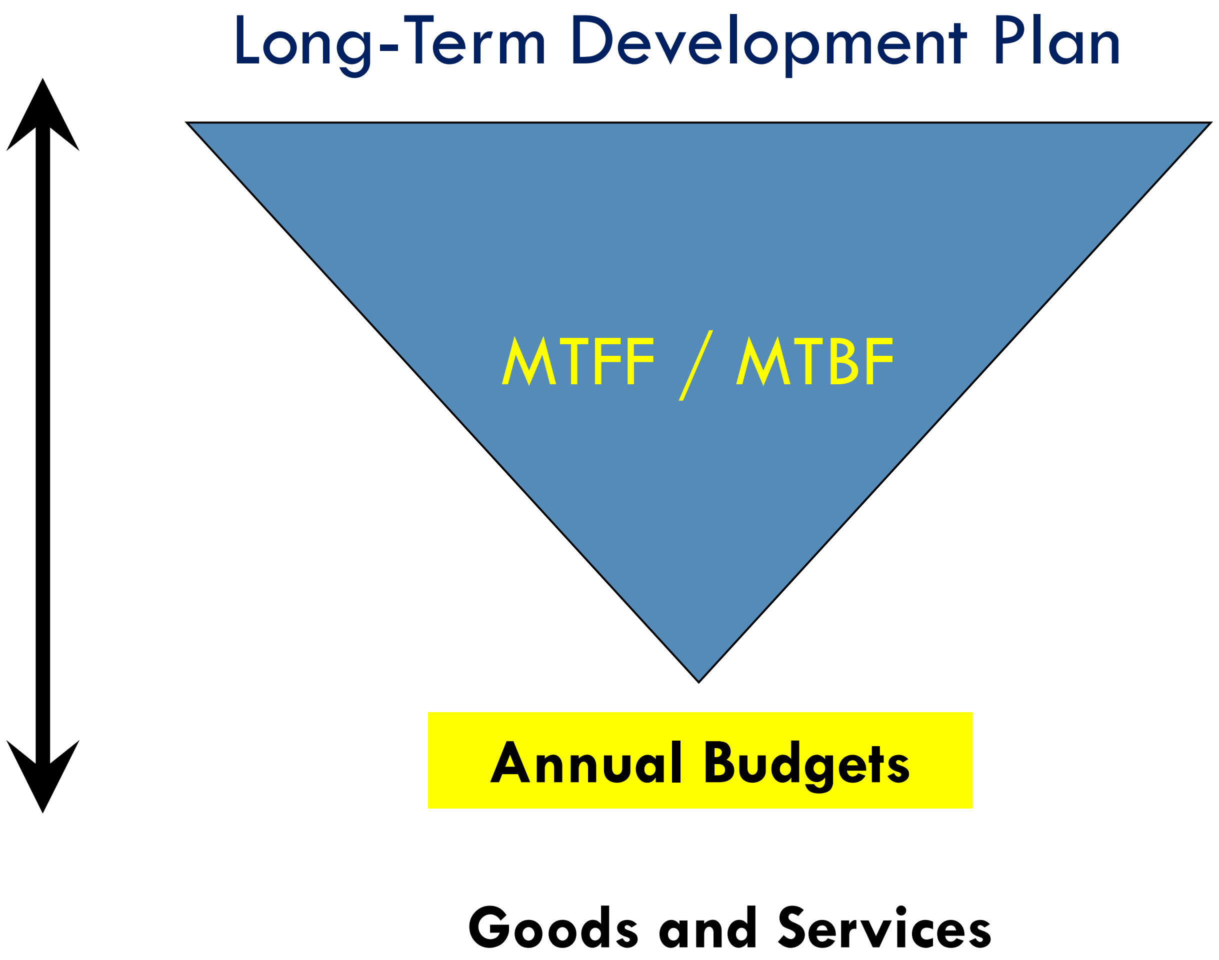
- Important distinction
- Budget is a legal document
- Budget <u>process</u> identifies the steps for preparation, implementation and monitoring of the document



IV. From Policy to Outcomes: The Budget Cycle



Linking Policy to Delivery



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

Budget Circular No. 1

Q2: STRATEGIC PHASE
Fiscal policy, strategy, ceilings

Cabinet Decision on Ceilings based on agreed fiscal policy & strategy

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

Budget Circular No. 2

Q4: APPROVAL
Cabinet legislature

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

IMF Article IV – Table 2

Table 2. Korea: Medium-Term Projections, 2014–2021

					Projections			
	2014	2015	2016	2017	2018	2019	2020	2021
Real GDP (percent change)	3.3	2.6	2.7	3.0	3.1	3.0	3.0	3.0
Total domestic demand	2.5	3.7	2.4	3.3	3.4	3.5	3.6	3.6
Final domestic demand	2.5	2.9	3.0	3.4	3.5	3.6	3.6	3.6
Consumption	2.0	2.4	2.7	3.5	3.6	3.6	3.6	3.6
Gross fixed investment	3.4	3.8	3.6	3.2	3.4	3.5	3.6	3.6
Stock building 1/	0.0	0.8	-0.5	-0.1	-0.1	0.0	0.0	0.0
Net foreign balance 1/	0.4	-1.2	-0.3	-0.3	-0.2	-0.3	-0.3	-0.4
Prices, period average (percent change)								
Consumer price	1.3	0.7	1.2	1.9	2.0	2.0	2.0	2.0
GDP deflator	0.6	2.2	1.4	1.6	1.7	1.9	1.9	1.9
Savings and investment (in percent of GDP)								
Gross national savings	35.3	36.2	36.3	35.6	35.1	34.9	34.8	34.4
Gross domestic investment	29.3	28.5	28.8	29.2	29.1	29.1	29.1	29.2
Current account balance	6.0	7.7	7.5	6.5	5.9	5.8	5.6	5.2
Money and credit (end of period)								
Credit growth 2/	7.4	7.6	6.7	6.5	6.1	5.9	5.9	5.9
Consolidated central government (in percent of GDP)								
Revenue	21.2	21.3	22.0	21.7	21.5	21.5	21.5	21.5
Expenditure	20.8	21.0	21.1	20.6	19.8	19.3	19.2	19.1
Net lending (+) / borrowing (-)	0.4	0.3	0.8	1.0	1.7	2.2	2.3	2.4
Overall balance	0.6	0.0	0.3	0.5	1.2	1.7	1.8	2.0
Excluding Social Security Funds	-2.0	-2.4	-2.3	-2.0	-1.4	-0.9	-0.7	-0.6
Trade (percent change)								
Merchandise exports	-0.8	-10.5	-5.0	3.9	3.5	3.8	4.0	3.4
Volumes 3/	4.4	2.5	1.2	2.2	3.0	3.2	3.1	3.2
Merchandise imports	-2.1	-18.2	-7.1	6.4	4.7	4.7	5.3	4.7
Volumes 3/	4.7	3.1	1.9	2.8	3.6	3.9	3.9	4.0
Terms of trade	1.7	12.0	2.9	-1.8	-0.6	-0.2	-0.5	-0.4
Balance of payments (in billions of U.S. dollars)								
Current account	84.4	105.9	103.6	93.1	88.7	91.1	92.3	89.0
(In percent of GDP)	6.0	7.7	7.5	6.5	5.9	5.8	5.6	5.2
Trade balance	88.9	120.3	123.4	118.2	117.0	117.3	116.1	113.9
Merchandise exports	613.0	548.8	521.5	541.9	560.6	581.7	604.9	625.7
Merchandise imports	524.1	428.5	398.1	423.7	443.6	464.4	488.8	511.8
External debt								
In billions of U.S. dollars 4/	424.4	395.4	384.2	374.8	367.4	361.8	358.0	356.2
(In percent of GDP)	30.1	28.7	27.9	26.1	24.6	23.1	21.9	20.9
Of which: Short-term (end of period)	8.2	7.8	7.3	6.6	5.9	5.2	4.6	4.0
Debt service ratio 5/	7.9	8.9	9.0	8.6	8.7	8.8	8.7	8.4

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

Administrative Classification		**Economic Classification**			**Functional Classification**		
Title	Chapter	Section	Article	Paragraph	Main Function	Function	Secondary Function
Ministry	Managing Unit	Main Classification	Subclassific ation	Suppl Information	Division	Group	Class
Agriculture & Forestry	DG for Agriculture	Expenses	Employee Compensati on	Wages and Salaries in Cash	Economic Affairs	Agriculture, Forestry, Fisheries, Hunting	Agriculture
2 characters	2 characters	1 character	1 character	2 characters	3 characters	1 character	1 character

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

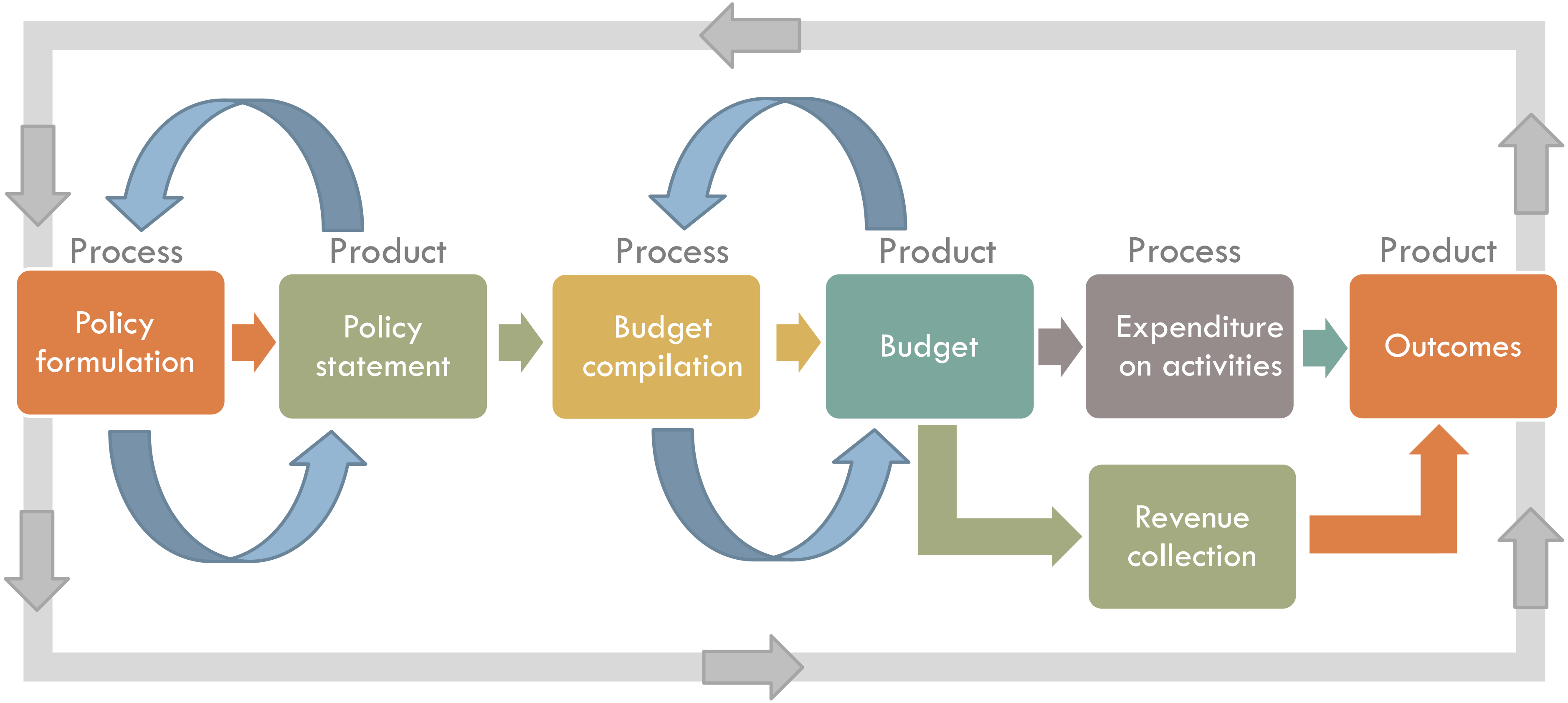
- Good budget preparation (comprehensiveness, credibility)
- Predictability and control (minimize leakages)
- Accurate accounting, recording and reporting
- External oversight (audit, public accounts committees)

VI-a. Controlled Budget Execution in Five Steps

1. Authorisation
2. Commitment
3. Verification
4. Payment authorization
5. Cash payment

VI. External Audit

From Policy to Outcomes: The Budget Cycle



References for Good Practices

Public Financial Management

http://www1.worldbank.org/publicsector/pe/StrengthenedApproach/

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

http://um.dk/en/about-us/e-learning/intro-public-financial-procurement/

http://www.imf.org/external/pubs/ft/gfs/manual/gfs.htm

Open Budget Index

http://internationalbudget.org/opening-budgets/open-budget-initiative/open-budget-survey/

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

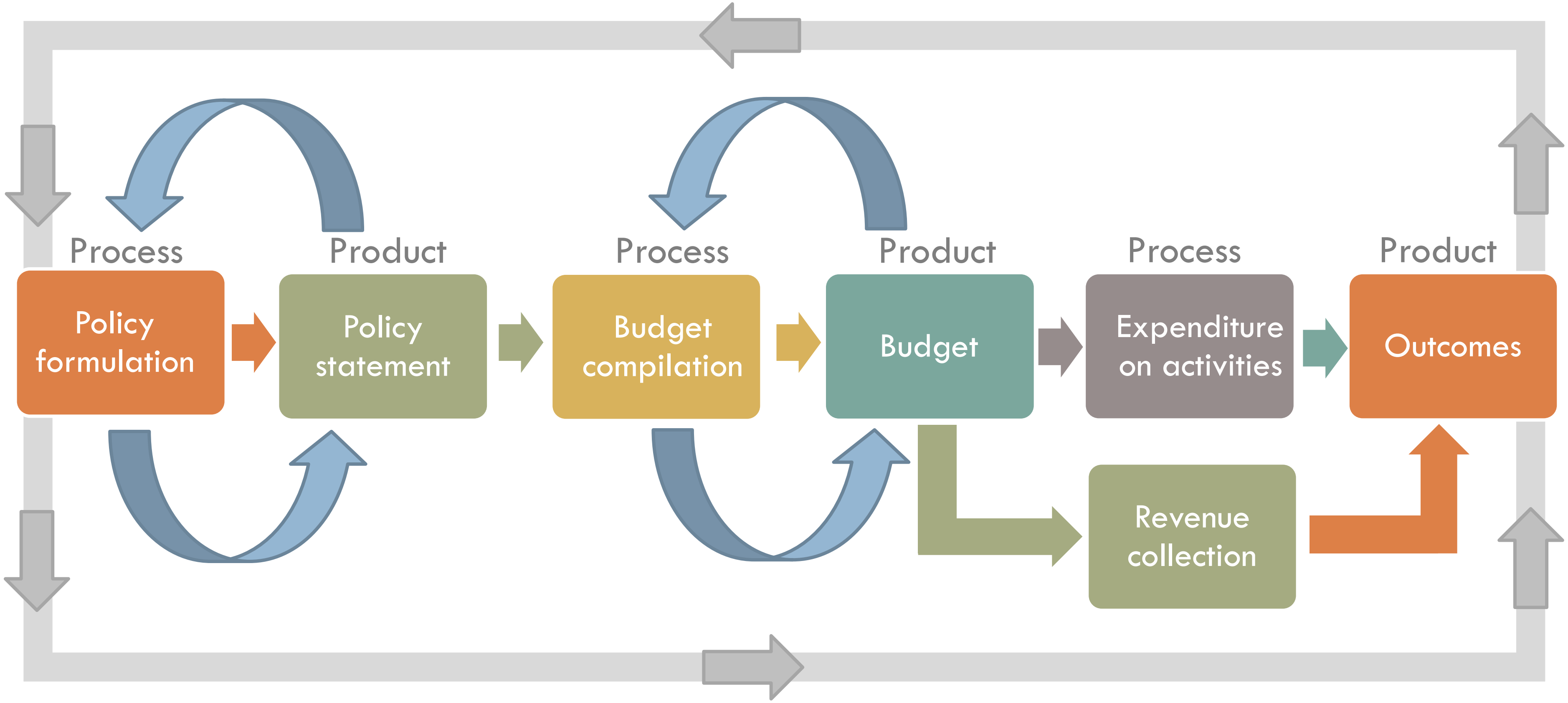
PFM Assessments: Why and What?

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

Type of Assessments

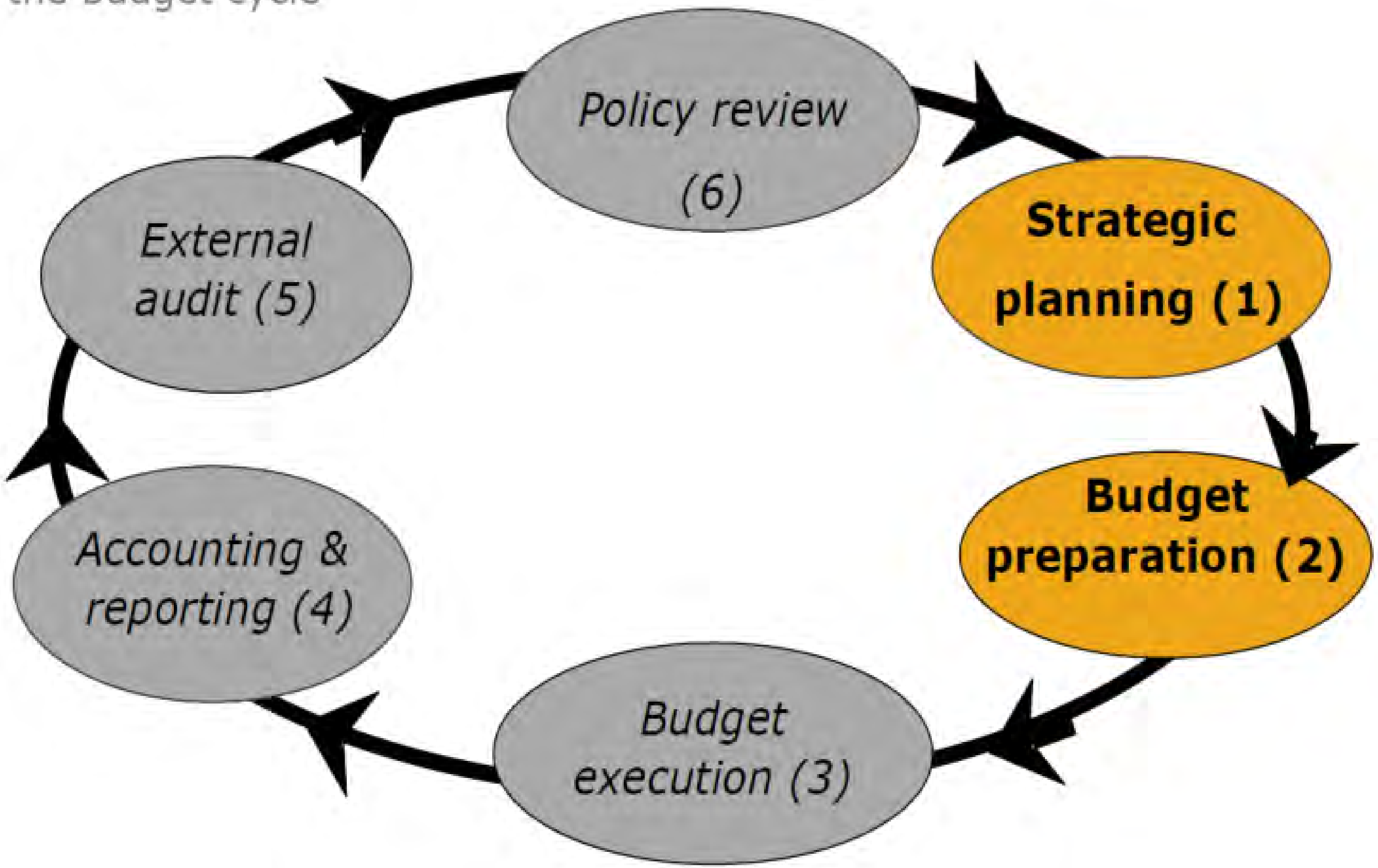
- Public Expenditure Reviews
- Code of Good Practices on Fiscal Transparency
- Public Expenditure and Financial Accountability Framework (PEFA)

Place In The Budget Cycle



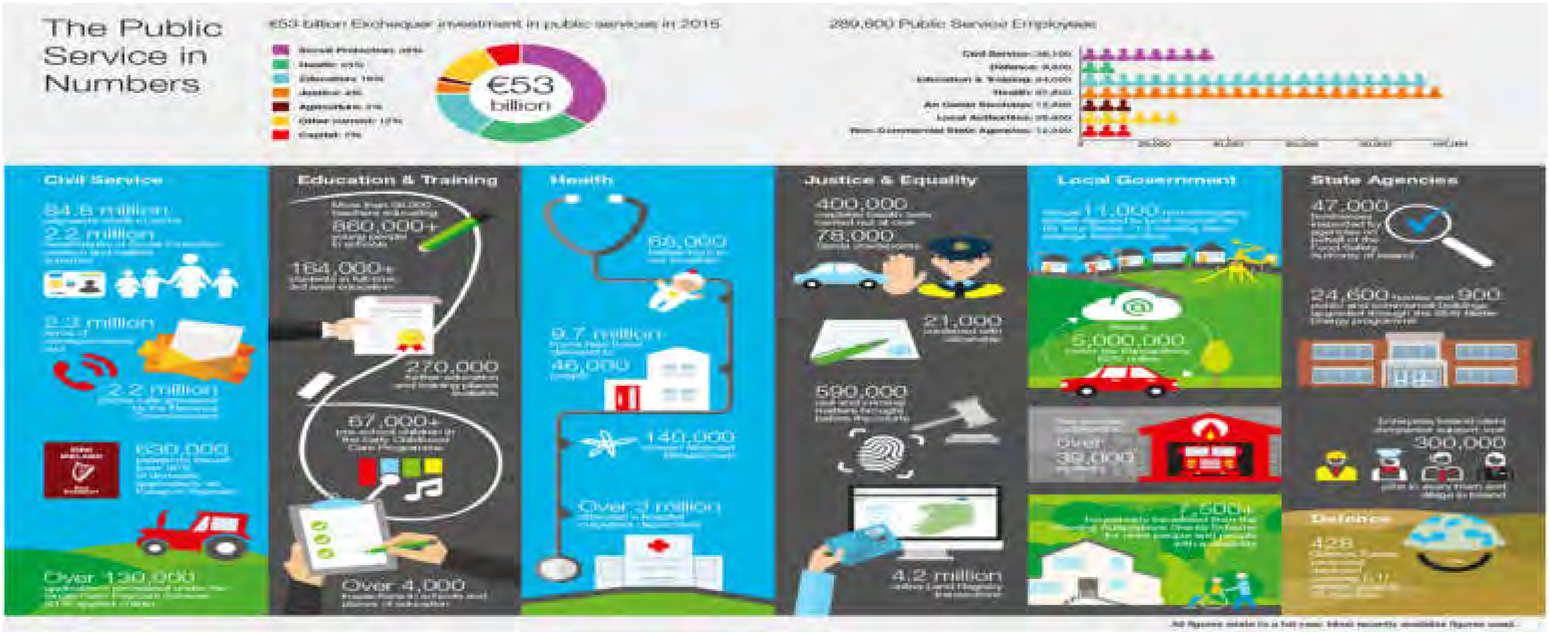
Public Expenditure Review (PER) in the Budget Cycle

PER in the budget cycle

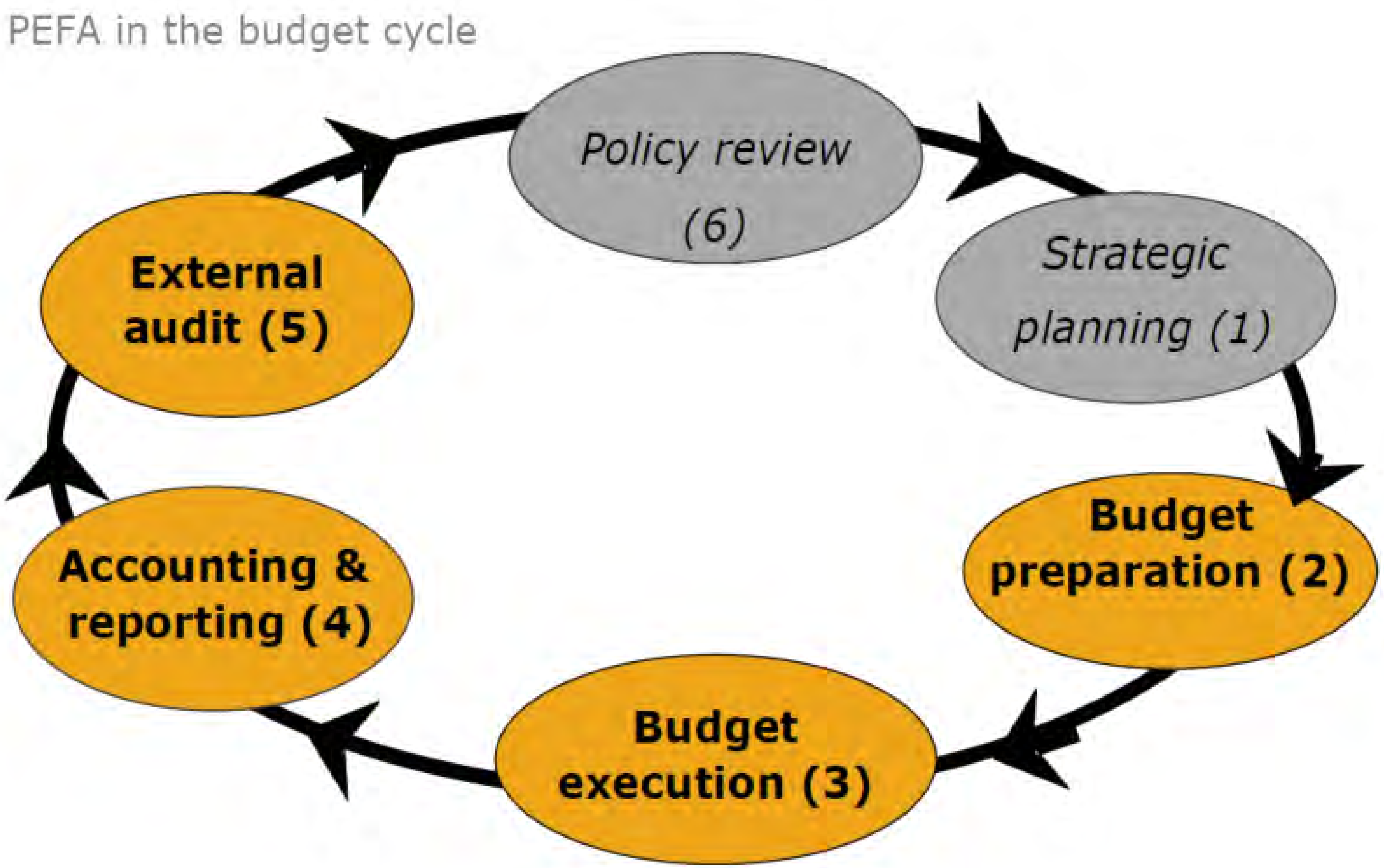


Scope and Focus of a PER

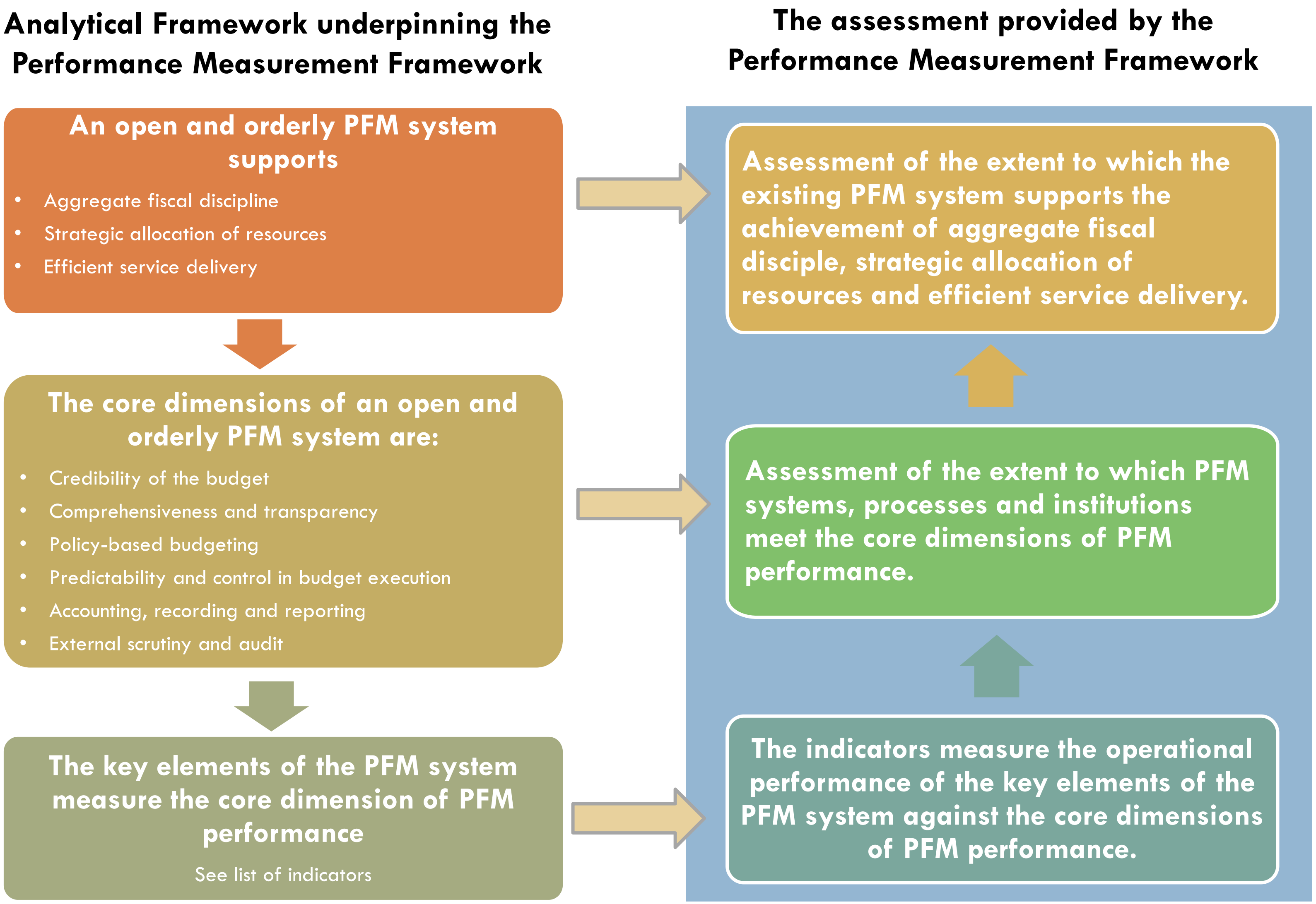
- **Rationale** for public investments (efficiency / market failure, redistribution / equity) at macro or sector level
- Fiscal **sustainability** and **prioritization** of public expenditures (policy objectives, resource constraints)
- Institutional arrangements and **development outcomes**



Public Expenditure and Financial Accountability Assessment (PEFA) in the Budget Cycle



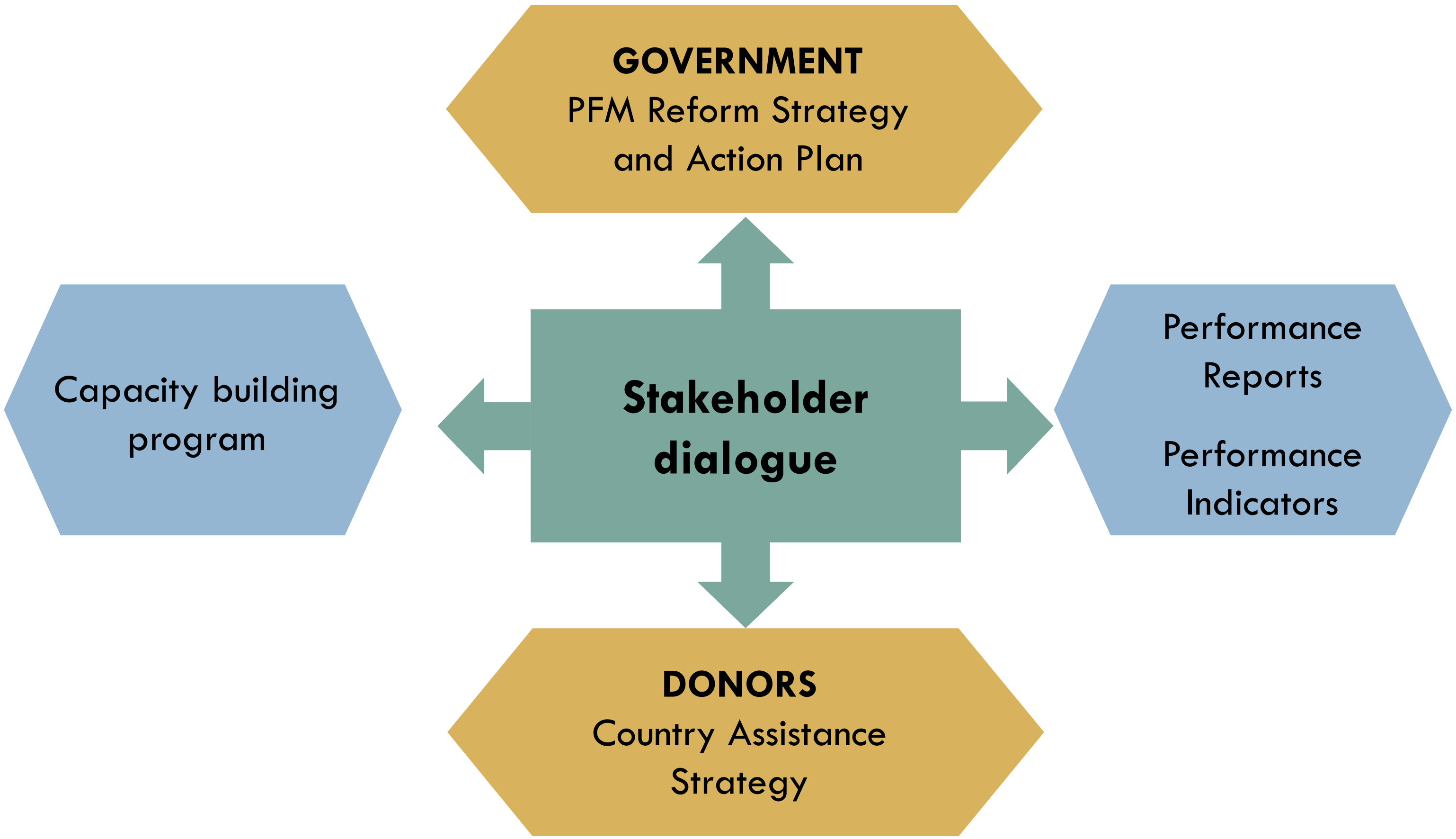
Scope and Focus of a PEFA Assessment



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

Enables a basis for accountability

Broad activities

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

Platform 2

Improved internal control to hold managers accountable

Enables focus on what is done with money

Broad activities

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

Platform 3

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

Enables more accountability for performance management

Broad activities

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

Platform 4

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

Broad activities

- Full design of FMIS
- Develop IT management strategy
- Initial design of asset register

References for Good Practices

IMF's Code of Good Practices on Fiscal Transparency
http://www.imf.org/external/np/fad/trans/

Report on Observation of Standards and Codes
http://www.imf.org/external/NP/rosc/rosc.aspx

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

Open Budget Index
http://internationalbudget.org/opening-budgets/open-budget-initiative/open-budget-survey/

APPROACHES TO THE ASSESSMENT AND REFORM OF PUBLIC FINANCIAL MANAGEMENT SYSTEMS

Asia-Pacific Finance and Development Institute

2019 International Lecture Series

Shanghai, People's Republic of China

8 October

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?

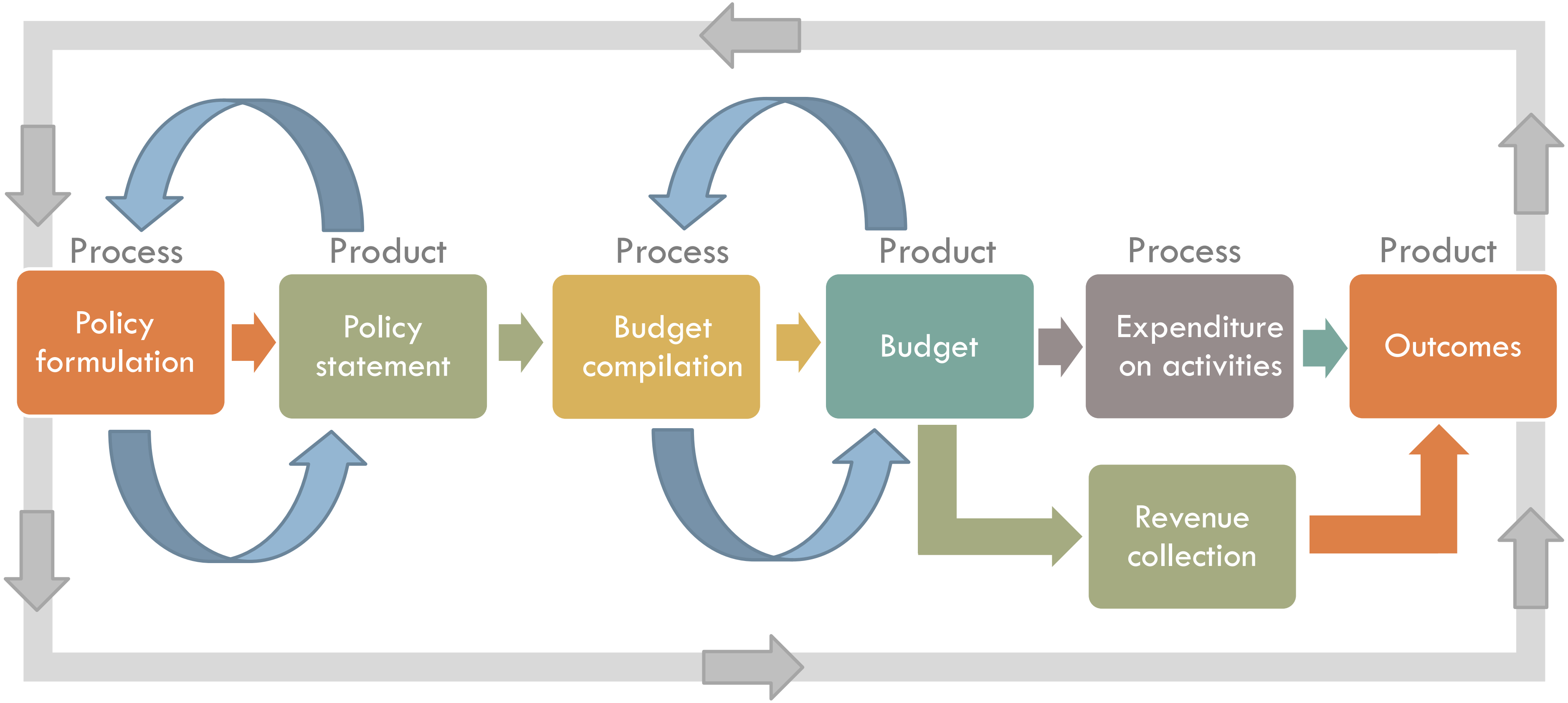
- Transparency and accountability
- A good PFM system is essential for achievement of developmental / policy objectives
- Formal aspects and composition / poverty focus

Public
scrutiny

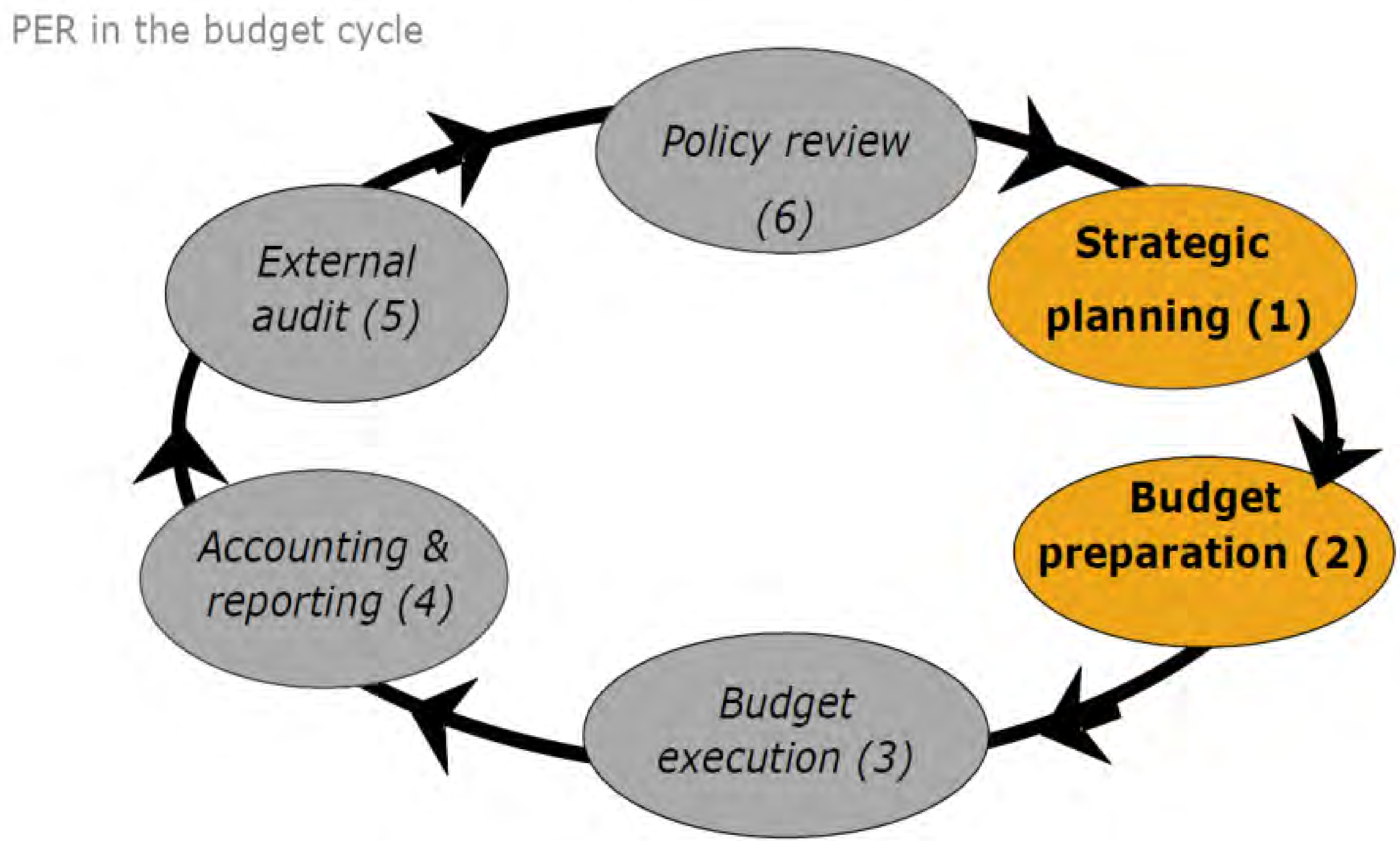
Type of Assessments

- Public Expenditure Reviews
- Code of Good Practices on Fiscal Transparency
- Public Expenditure and Financial Accountability Framework (PEFA)

Place In The Budget Cycle

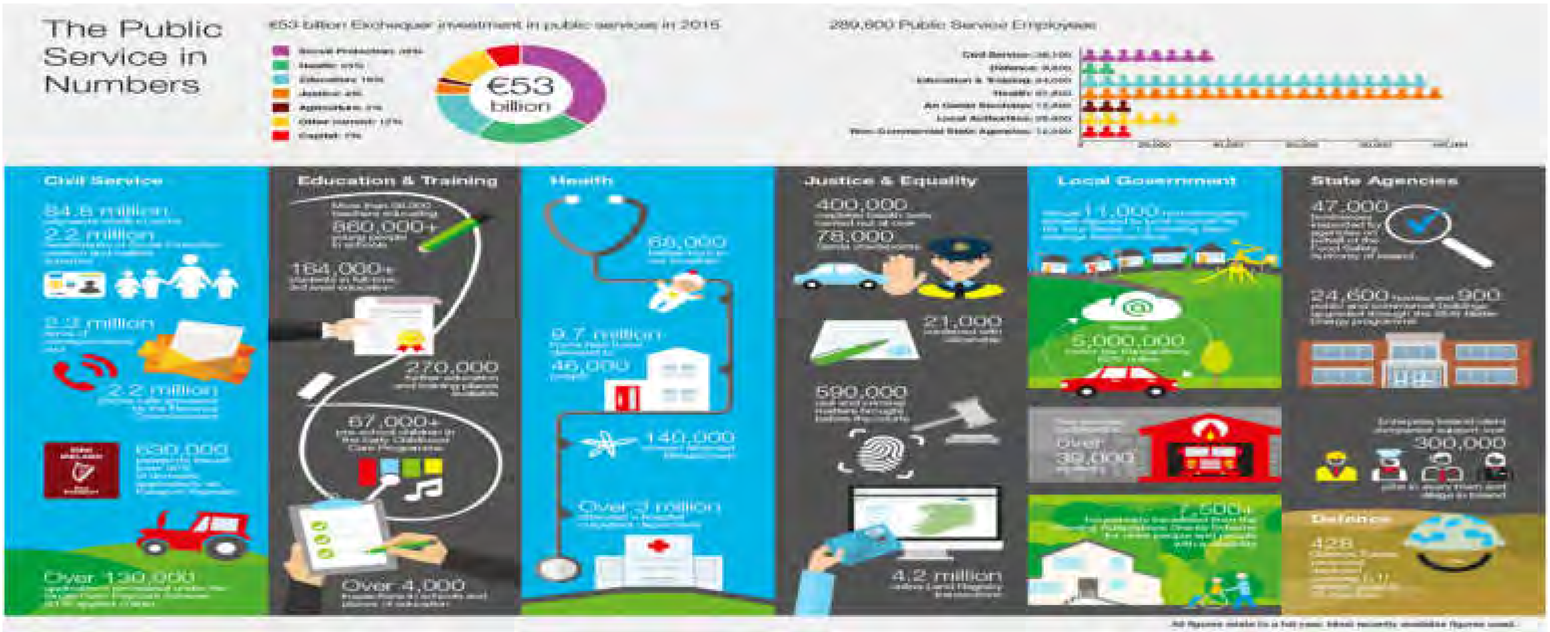


Public Expenditure Review (PER) in the Budget Cycle

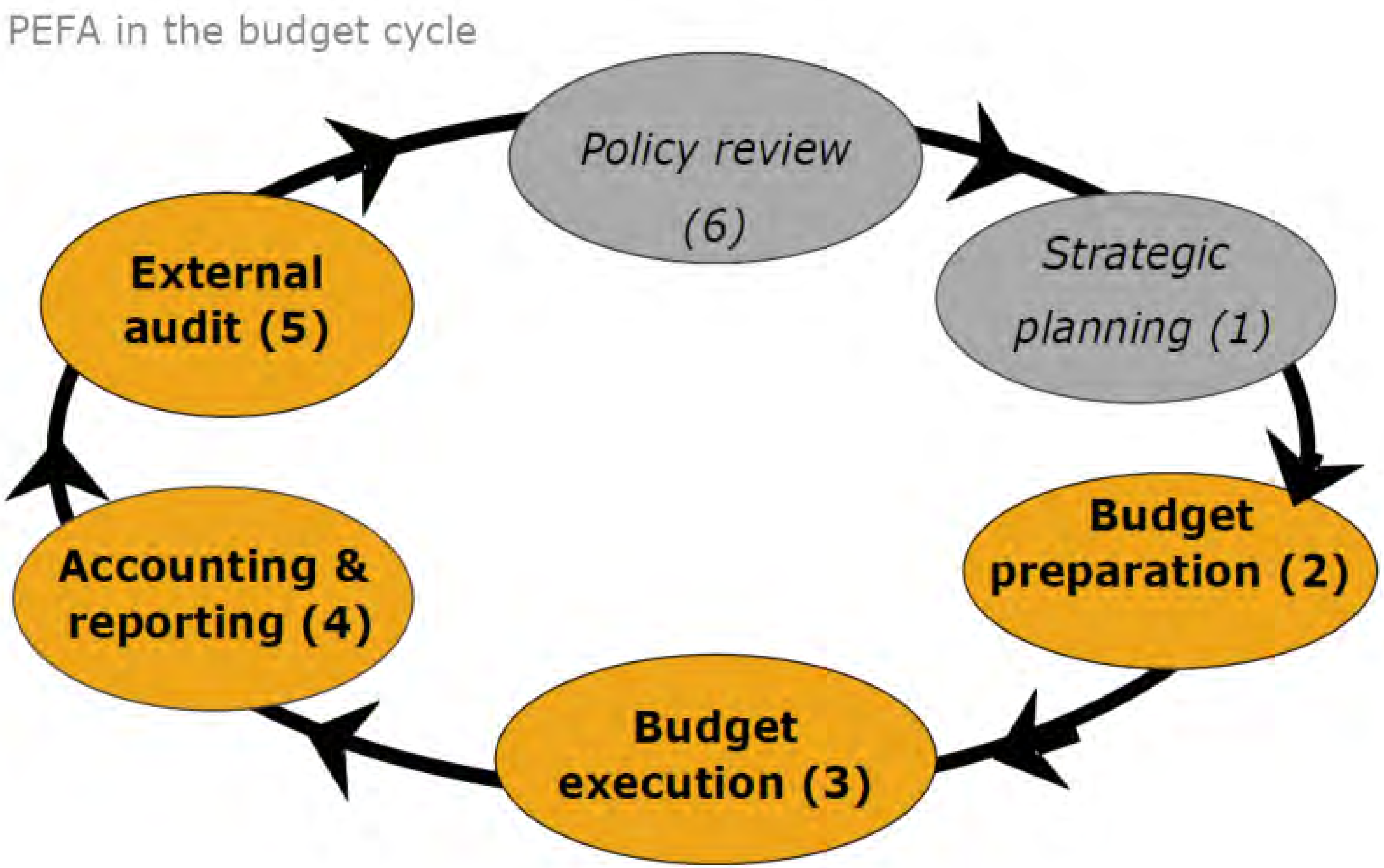


Scope and Focus of a PER

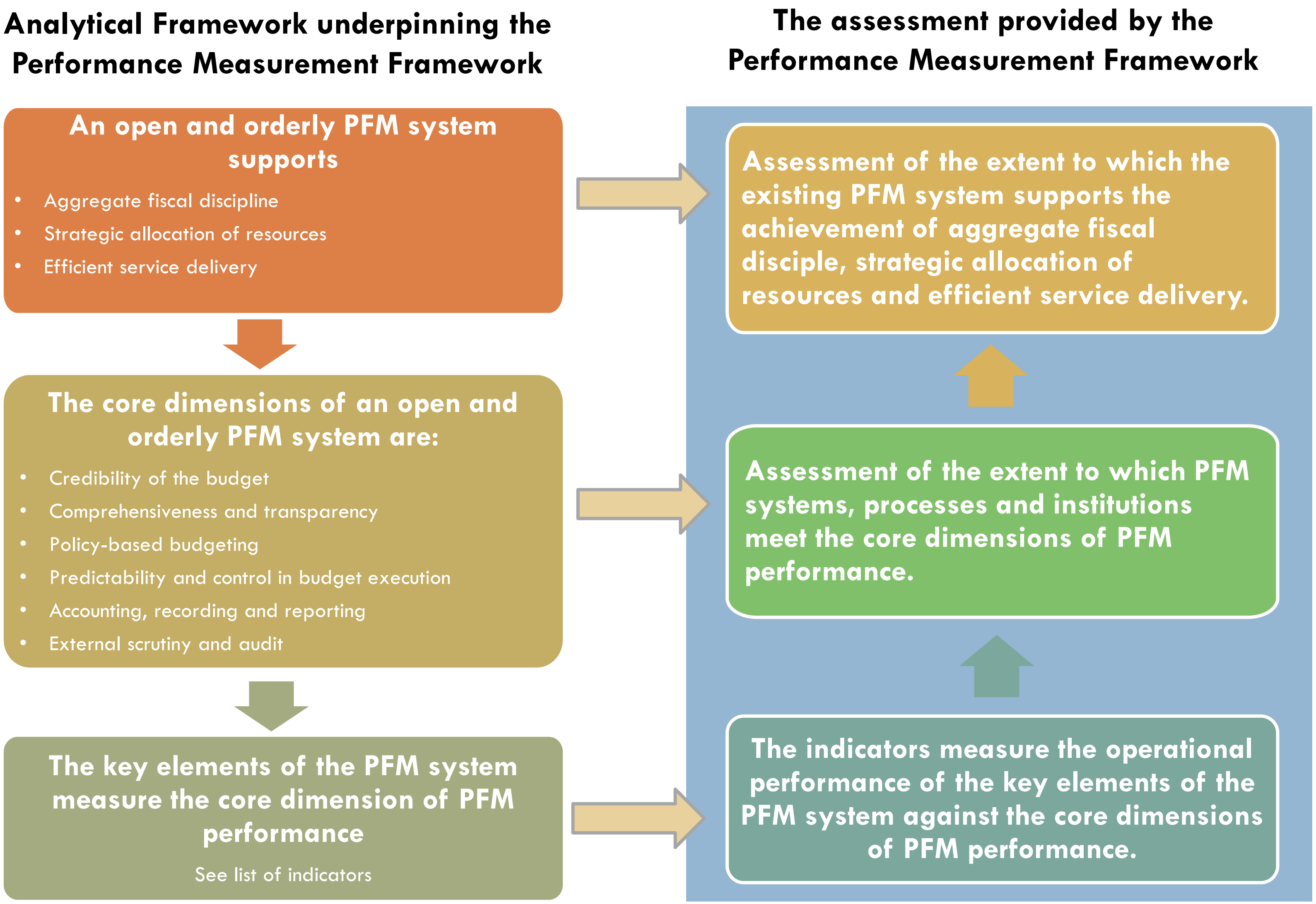
- **Rationale** for public investments (efficiency / market failure, redistribution / equity) at macro or sector level
- Fiscal **sustainability** and **prioritization** of public expenditures (policy objectives, resource constraints)
- Institutional arrangements and **development outcomes**



Public Expenditure and Financial Accountability Assessment (PEFA) in the Budget Cycle



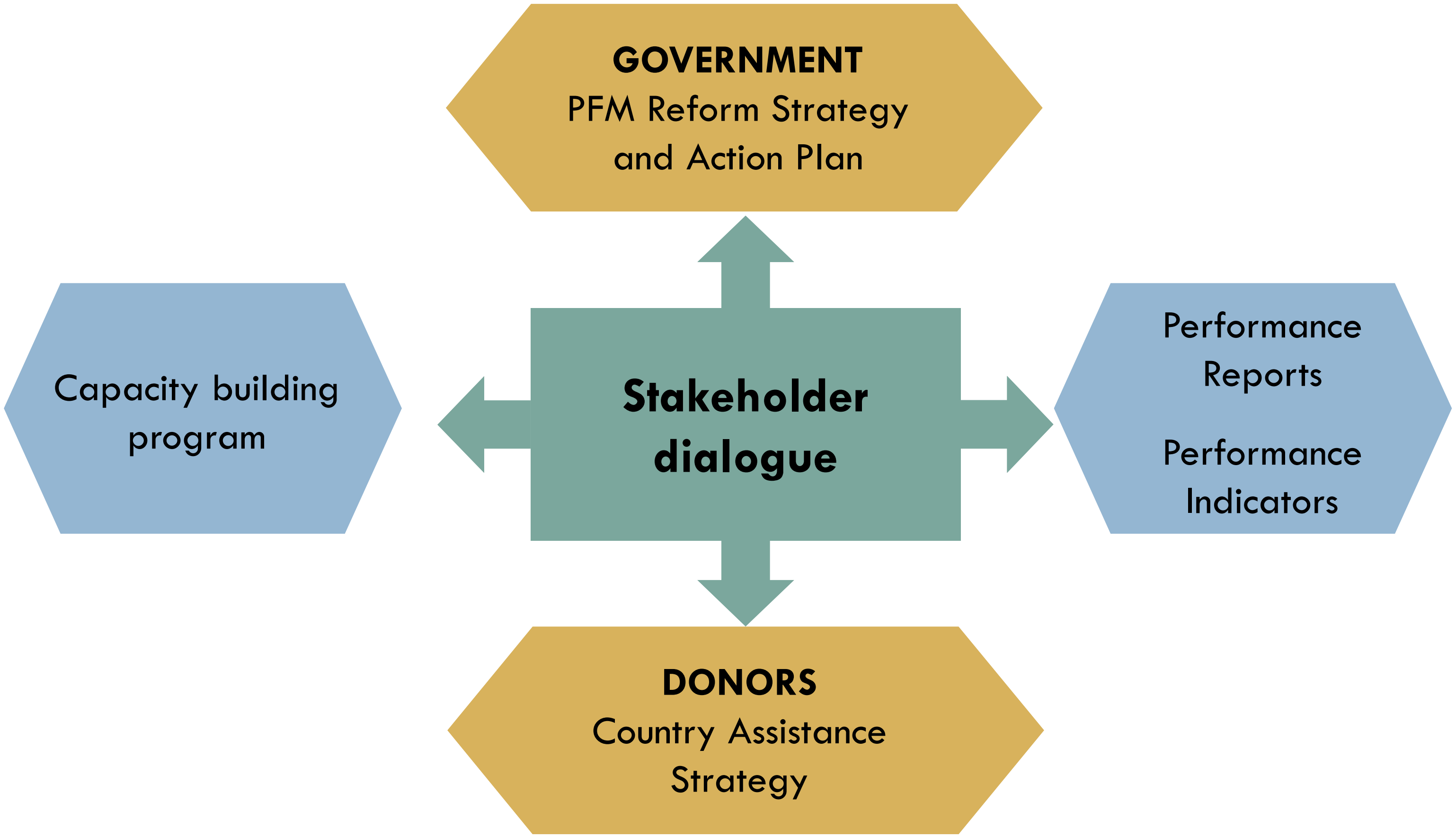
Scope and Focus of a PEFA Assessment



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

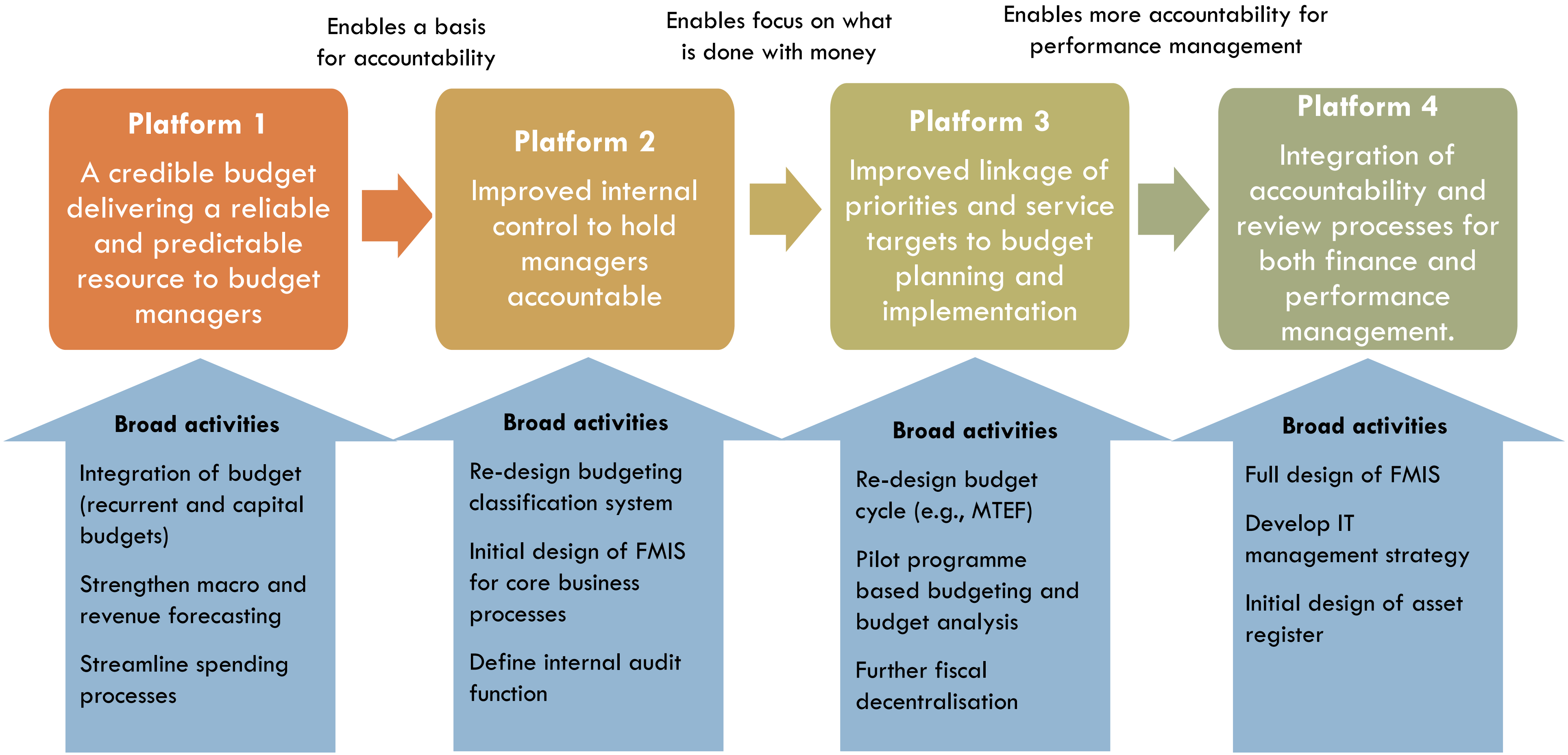
PEFA and PFM Reforms



Compiled from Allen et al 2004

Phasing PFM Reforms

Platform Approach



References for Good Practices

IMF's Code of Good Practices on Fiscal Transparency
http://www.imf.org/external/np/fad/trans/

Report on Observation of Standards and Codes
http://www.imf.org/external/NP/rosc/rosc.aspx

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

Open Budget Index
http://internationalbudget.org/opening-budgets/open-budget-initiative/open-budget-survey/

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	Objective and Possible Uses	Involved Departments
MTFF Economic conditions, Revenue, Spending	Resources available to finance public spending. Monitoring of compliance with rules/targets on spending or budget deficits	**Planning, Fiscal Policy and Budget**
DSA Debt, Budget balances	Financial viability of debt-financed budget deficits Monitoring of compliance rules/targets on debt and borrowing	**Planning, Fiscal Policy and Budget**
MTDS Debt, Borrowing Requirements and Financing Options, Market Development	Identification of adequate debt instruments to borrow, given their cost-risk profile. Absorption constraints imposed by market developments and investors' appetite for government debt	**Treasury and Debt Management**

Projection Methods Using Identities and Formulas

$$\boxed{D_t = D_{t-1}} + \boxed{PE_t} - \boxed{R_t} + \boxed{\frac{i_t}{1+\hat{Y}_t} D_{t-1} - \frac{\hat{Y}_t}{1+\hat{Y}_t} D_{t-1}}$$

Macro | Revenue | Expenditure | Debt

D_t is the public debt-to-GDP ratio at end of 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

$\hat{Y}_t$ is the growth rate of nominal GDP

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

$$GBN_t = PE_t - R_t + \frac{i_t}{1+\hat{Y}_t} D_{t-1} + Am_t + NAFA_t + OFN_t$$

Macro

Revenue

Expenditure

Debt

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
$\hat{Y}_t$ 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

Projection Methods Using Identities and Formulas

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

Macro

Revenue

Expenditure

Debt

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.
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)

Analytical Tools: Fiscal and Debt Variables

Macro	**Economic Activity**	Nominal and real GDP, activity indicators, prices of goods and assets. Tax bases.
Revenue Operating & Capital Budget	**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.
Expenditure Operating & Capital Budget	**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).
Debt Cash Flow and Financing	**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 and New Debts	**Existing debts** (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

Historical Data | **Projections**

Macro

Revenue

Expenditure

Debt

	2007	2008	2009	2010(p)	2011(p)	2012(p)	2013(p)	2014(p)	2015(p)
Nominal GDP	639,776	739,635	674,983	745,563	808,630	882,947	965,919	1,056,688	1,155,987
Growth nominal GDP (%)	*11.5*	*15.6*	*-8.7*	*10.5*	*8.5*	*9.2*	*9.4*	*9.4*	*9.4*
Growth real GDP (%)	*6.3*	*4.6*	*-1.7*	*5.7*	*5.3*	*5.6*	*5.8*	*5.8*	*5.8*
Inflation measured by GDP deflator (%)	*4.9*	*10.5*	*-7.1*	*4.5*	*3.0*	*3.4*	*3.4*	*3.4*	*3.4*
Revenue	139885	159793	158600	166657	178642	189829	201852	214913	224254
Tax revenue	95168	112897	103008	116856	125568	134300	144103	154821	161640
Nonpetroleum tax revenue	72444	86003	74673	85595	95005	103737	113485	124149	135816
Petroleum tax revenue	22724	26894	28335	31260	30563	30563	30618	30672	25824
Nontax revenue	44717	46896	55592	49801	53073	55529	57749	60092	62614
Nonpetroleum nontax revenue	16012	9561	18268	17267	18727	20448	22370	24472	26772
Petroleum nontax revenue	28705	37335	37324	32534	34346	35081	35380	35621	35842
Expenditure	160544	195388	206082	205702	206085	224469	245922	268167	292691
Operating expenditure	123084	153499	157100	155998	159768	173896	190596	207642	226478
Interest expenditure	12911	12797	13472	15886	18983	21933	25499	27923	30852
Interests on DX-denominated debt	11485	11642	12288	14888	18220	21171	24736	27160	30089
Interest on FX-denominated debt	1426	1155	1184	1184	763	763	763	763	763
Wages and salaries (emoluments)	32587	41011	37974	41340	44837	48957	53558	58591	64097
Transfers to sub-national govn and statutory bodies	14611	16949	17254	16068	17427	19029	20817	22774	24914
Subsidies	13581	35166	24526	21099	19950	21441	22310	23515	24743
Grants, pensions, and gratuities	23240	19544	37754	24548	26624	29071	31803	34792	38061
Other expenditure in goods and services	26154	28032	26120	37057	31947	33463	36608	40048	43812
Development expenditure (net of loan recoveries)	37460	41889	48982	49705	46317	50574	55326	60526	66213
Primary budget balance	-7747	-22797	-34010	-23160	-8461	-12708	-18571	-25331	-37585
Overall budget balance	-20658	-35594	-47482	-39046	-27444	-34641	-44070	-53254	-68437

Historical Data and Projections

Debt

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

Historical Data | Projections

	2007	2008	2009	2010(p)	2011(p)	2012(p)	2013(p)	2014(p)	2015(p)
Financing	20658	35594	47482	39046	27444	34641	44070	53254	68437
DX-denominated net borrowing	25800	35654	56900	39046	27444	34641	44070	53254	68437
Gross issuance	54081	60000	100561	66744	86886	77323	104264	106968	125990
Repayments	28281	24347	43661	27698	59442	42682	60194	53714	57553
Short term	2692	3062	3546	4320	4320	4320	4320	4320	4320
MLT	25589	21284	40115	23378	55122	38362	55874	49394	53233
FX-denominated net borrowing	-4314	-474	-6418	0	0	0	0	0	0
Gross issuance	489	472	145	763	6816	1355	1506	1825	1608
Repayments	4803	946	6563	763	6816	1355	1506	1825	1608
Short term	0	0	0	0	0	0	0	0	0
MLT	4803	946	6563	763	6816	1355	1506	1825	1608
Special receipts and use of assets	-827	414	-3000	0	0	0	0	0	0
Debt	266722	306437	362520	401565	429009	463650	507720	560974	629411
DX-denominated debt	247120	286121	348621	387667	415111	449752	493822	547076	615513
Short term	3062	3546	4320	4320	4320	4320	4320	4320	4320
MLT	244058	282576	344301	383347	410791	445432	489502	542756	611193
FX-denominated debt	19602	20316	13898	13898	13898	13898	13898	13898	13898
Short term	0	0	0	0	0	0	0	0	0
MLT	19602	20316	13898	13898	13898	13898	13898	13898	13898
Stock-flow adjustment	3839	4121	8600	0	0	0	0	0	0

Figures in % of GDP

	2007	2008	2009	2010(p)	2011(p)	2012(p)	2013(p)	2014(p)	2015(p)
Debt	41.7	41.4	53.7	53.9	53.1	52.5	52.6	53.1	54.4
DX-denominated debt	38.6	38.7	51.6	52.0	51.3	50.9	51.1	51.8	53.2
Short term	0.5	0.5	0.6	0.6	0.5	0.5	0.4	0.4	0.4
MLT	38.1	38.2	51.0	51.4	50.8	50.4	50.7	51.4	52.9
FX-denominated debt	3.1	2.7	2.1	1.9	1.7	1.6	1.4	1.3	1.2
Short term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
MLT	3.1	2.7	2.1	1.9	1.7	1.6	1.4	1.3	1.2

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

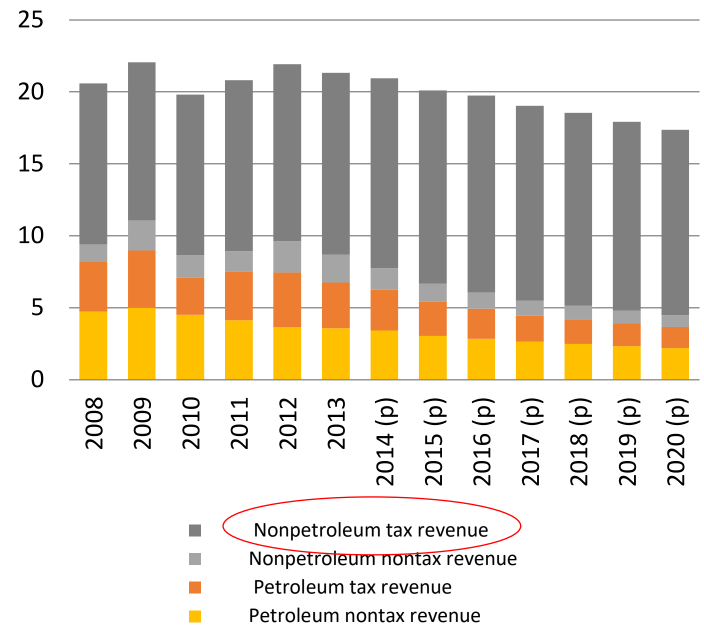
Malaysia: Formulating a fiscal consolidation program

Challenges:

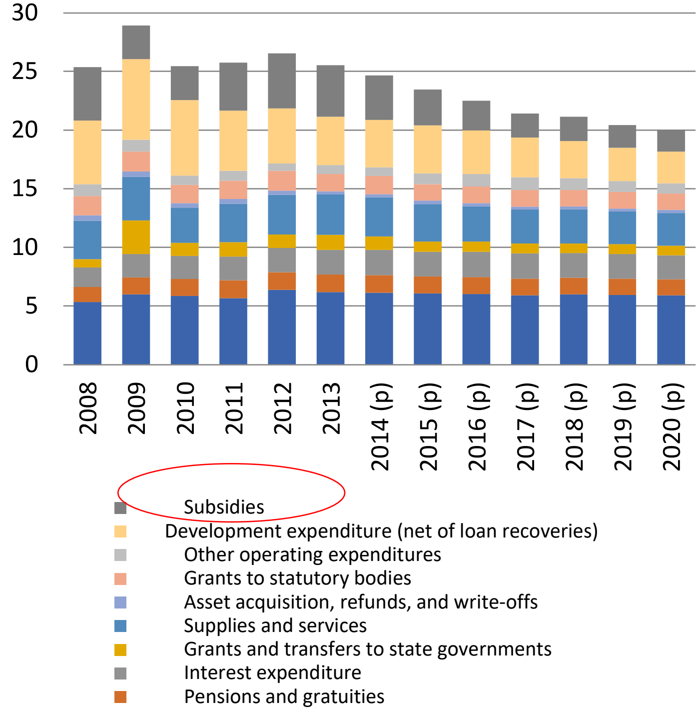
- Oil revenue declining, and non-discretionary spending pressures rising (especially off-budget programs, e.g., PPP, high-speed rail, pensions)
- Political concerns on adverse impacts of fiscal consolidation on GDP growth in a context of lower oil prices already contacting GDP

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

Introducing Goods & Services Tax (VAT-like)



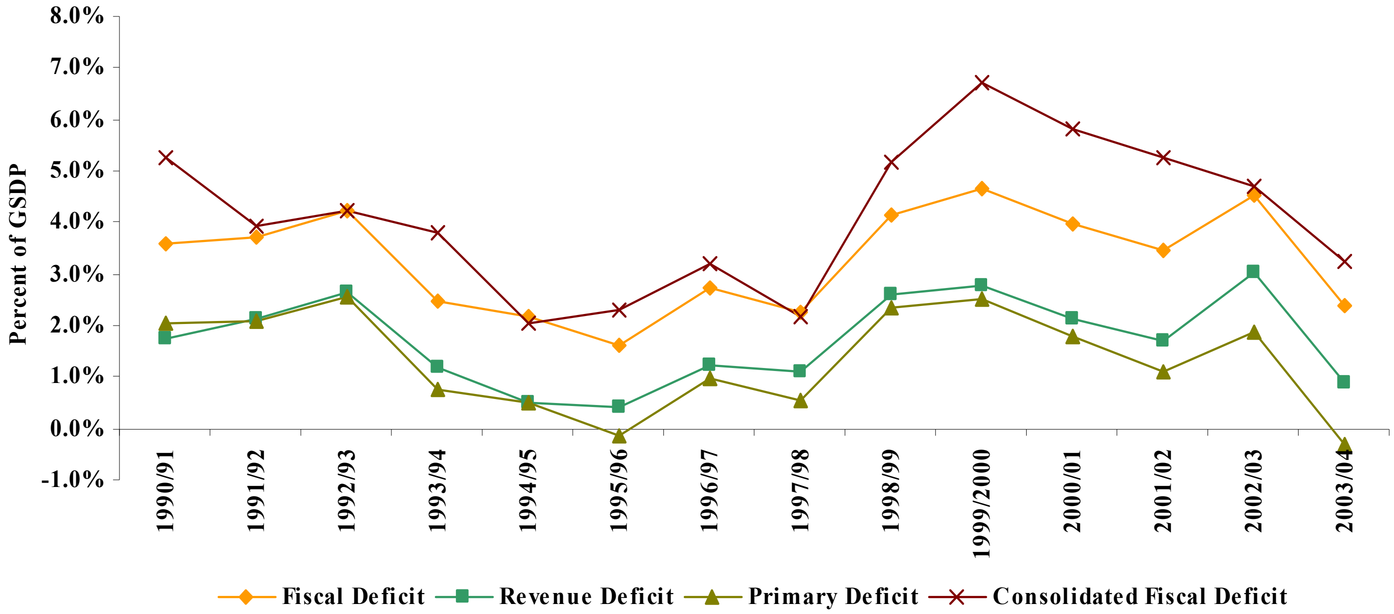
Rationalizing Subsidies (especially fuels & foodstuffs)



India: Managing contingent liabilities to restore fiscal health

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

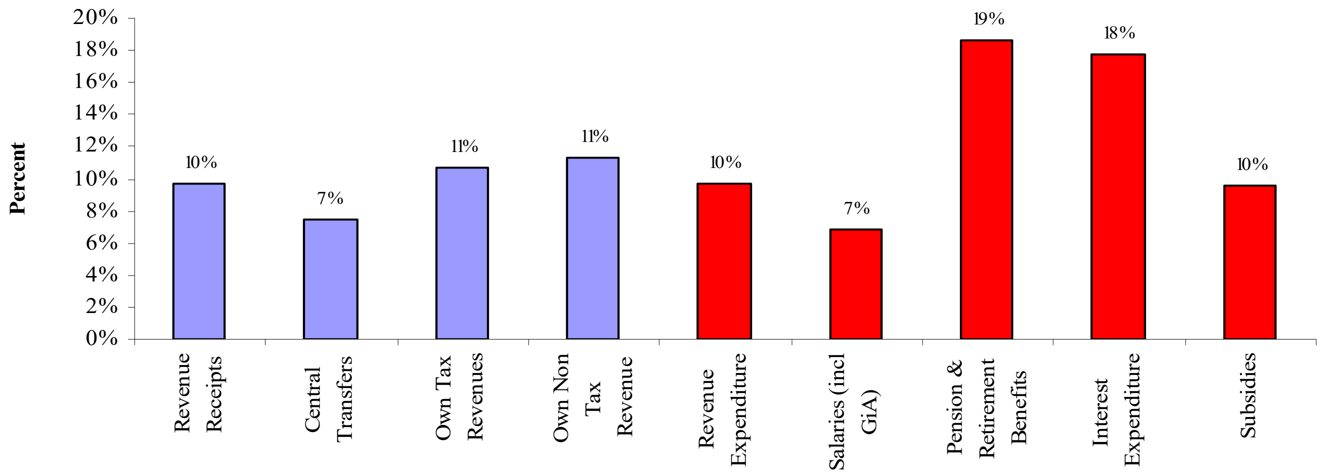


India: Managing contingent liabilities to restore fiscal health

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)

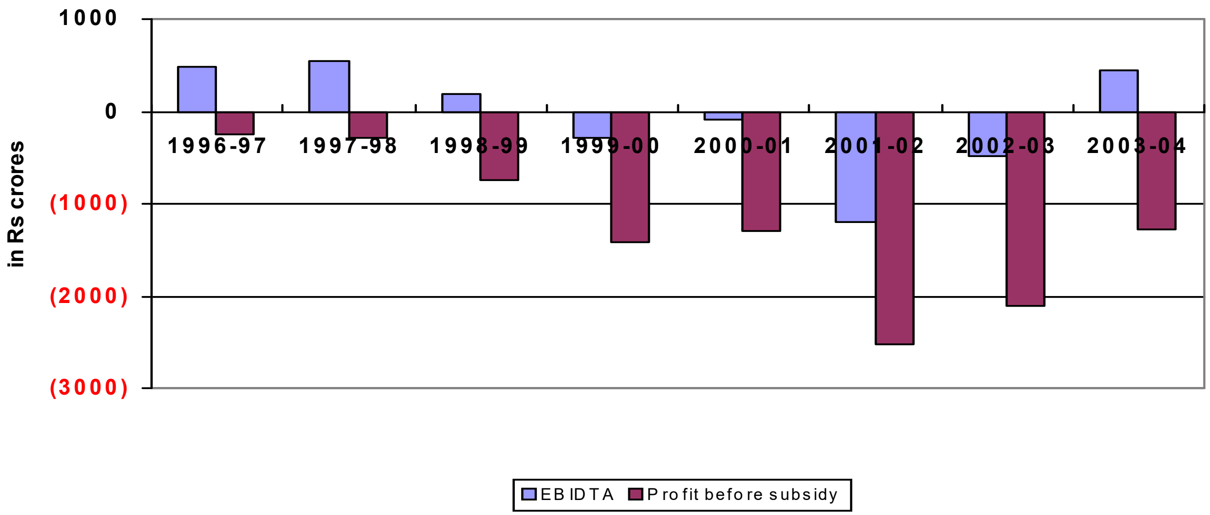


India: Managing contingent liabilities to restore fiscal health

Developed sub-module for SOE subsidies

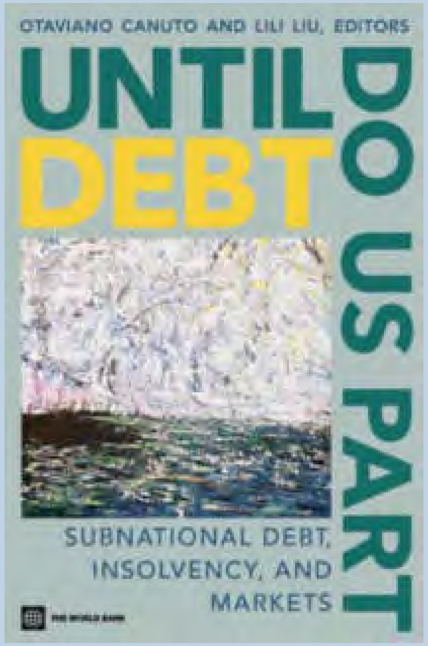
- State government support to SOEs through interest subsidies, and loan write-offs, and guarantees
- Sub-modules on contingent liabilities would be needed to develop for each of the important SOEs, for example, submodule for fiscal subsidies for power sector
- SOE monopoly in electricity transmission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

Financial Performance of State Electricity Board



Recommended Reading

- https://openknowledge.worldbank.org/handle/10986/12597



THANK YOU

Q&A