

INTERNATIONAL EXPERIENCES WITH DEBT ANALYSIS AND MONITORING

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This part of the presentation draws on work by
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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; MTFE 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 |
|---|--|--|
| <p>MTFF Economic conditions, Revenue, Spending</p> | <p>Resources available to finance public spending. Monitoring of compliance with rules/targets on spending or budget deficits</p> | <p>Planning, Fiscal Policy and Budget</p> |
| <p>DSA Debt, Budget balances</p> | <p>Financial viability of debt-financed budget deficits Monitoring of compliance rules/targets on debt and borrowing</p> | |
| <p>MTDS Debt, Borrowing Requirements and Financing Options, Market Development</p> | <p>Identification of adequate debt instruments to borrow, given their cost-risk profile. Absorption constraints imposed by market developments and investors' appetite for government debt</p> | <p>Treasury and Debt Management</p> |

Projection Methods Using Identities and Formulas

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

| | |
|-------------|---------|
| 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 |

GBN_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

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

| | |
|-------------|---------|
| 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

| | | |
|---|--|---|
| <p>Macro</p> | <p>Economic Activity</p> | <p>Nominal and real GDP, activity indicators, prices of goods and assets. Tax bases.</p> |
| <p>Revenue Operating & Capital Budget</p> | <p>Revenues (current & property)</p> | <p>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.</p> |
| <p>Expenditure Operating & Capital Budget</p> | <p>Expenditures (current & property)</p> | <p>Salaries and pensions, use of goods and services, subsidies, transfers, interest payments, capital expenditure.</p> |
| <p>Debt Cash Flow and Financing Existing Debts and New Debts</p> | <p>Sources of funds</p> | <p>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).</p> |
| | <p>Uses of funds</p> | <p>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).</p> |
| | <p>Existing debts (incurred in the past)</p> | <p>Debt stock and debt service (principal amortization and interest). Forecasts debt-by-debt.</p> |
| | <p>New debts (to be incurred in the projection horizon)</p> | <p>Borrowings, debt stock and debt service (principal amortization and interest). Forecasts debt-by-debt.</p> |

Historical Data and Projections

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) |
|--|---------|---------|---------|---------|---------|---------|---------|-----------|-----------|
| Macro | | | | | | | | | |
| 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 | | | | | | | | | |
| 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 | | | | | | | | | |
| 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 govns 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 |
| Debt | | | | | | | | | |
| 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

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

Historical Data

Projections

Debt

| | 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 |
| 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 |

Figures in % of GDP

Policy Context: Country Specific

- **Malaysia:** National Government's finances deteriorated after the 2008 Global Financial Crisis; MTF 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

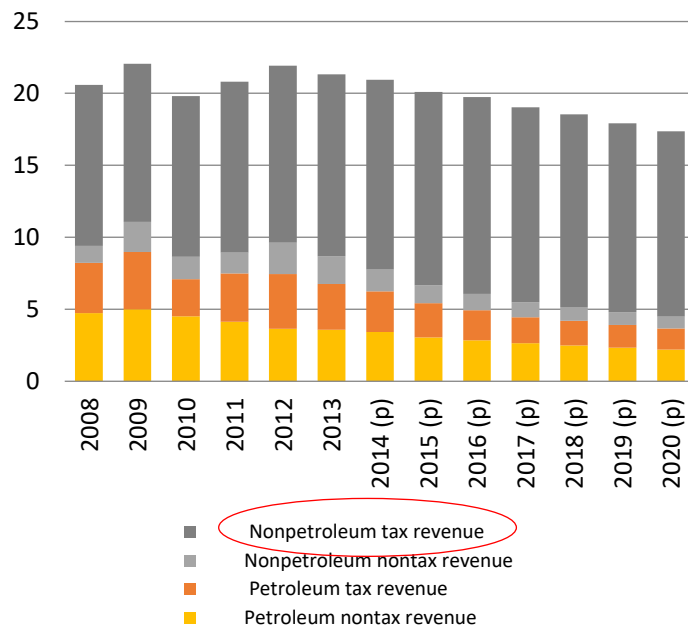
Malaysia: Formulating a fiscal consolidation program

Challenges:

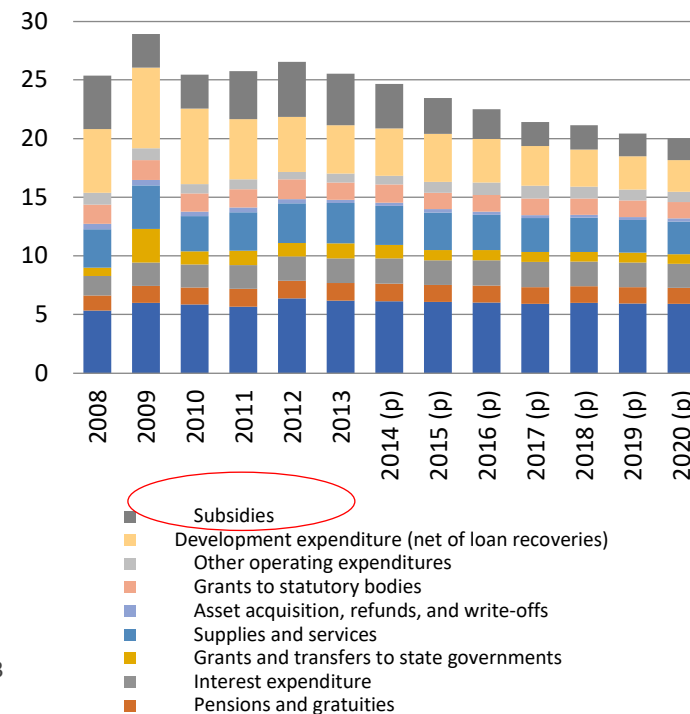
- Oil revenue declining, and non-discretionary spending pressures rising (especially off-budget programs, e.g., PPP, high-speed rail, pensions)
- Political concerns on adverse impacts of fiscal consolidation on GDP growth in a context of lower oil prices already contacting GDP

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

Introducing Goods & Services Tax (VAT-like)



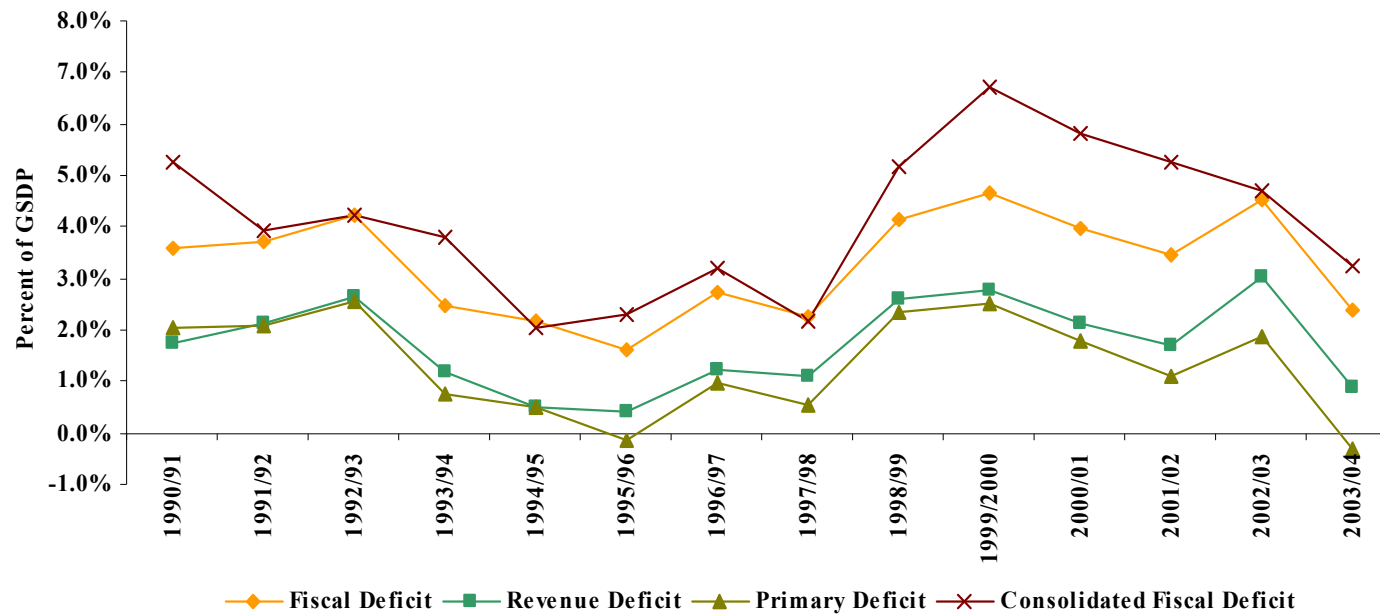
Rationalizing Subsidies (especially fuels & foodstuffs)



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

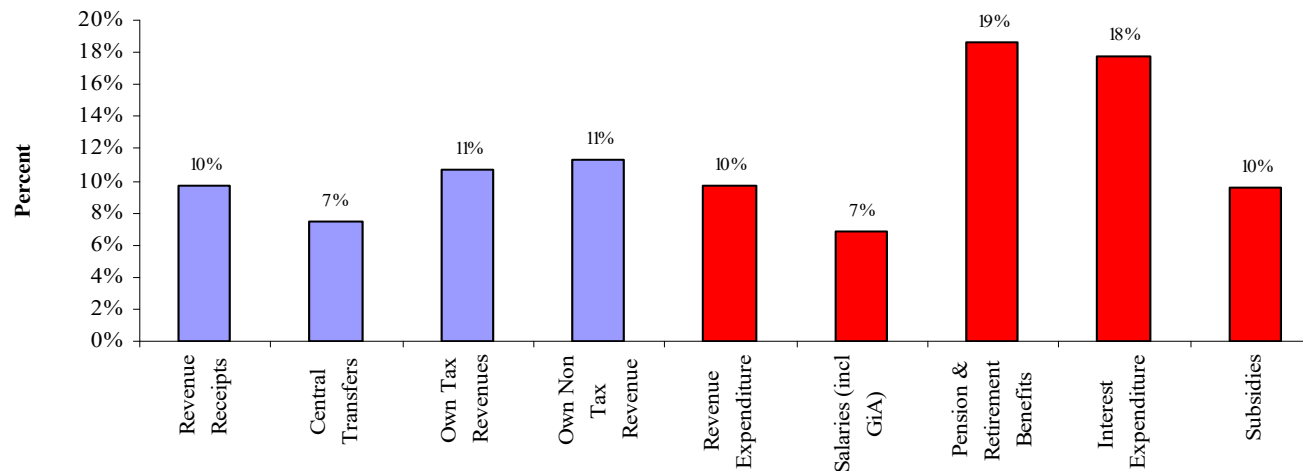


India: Managing contingent liabilities to restore fiscal health

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)

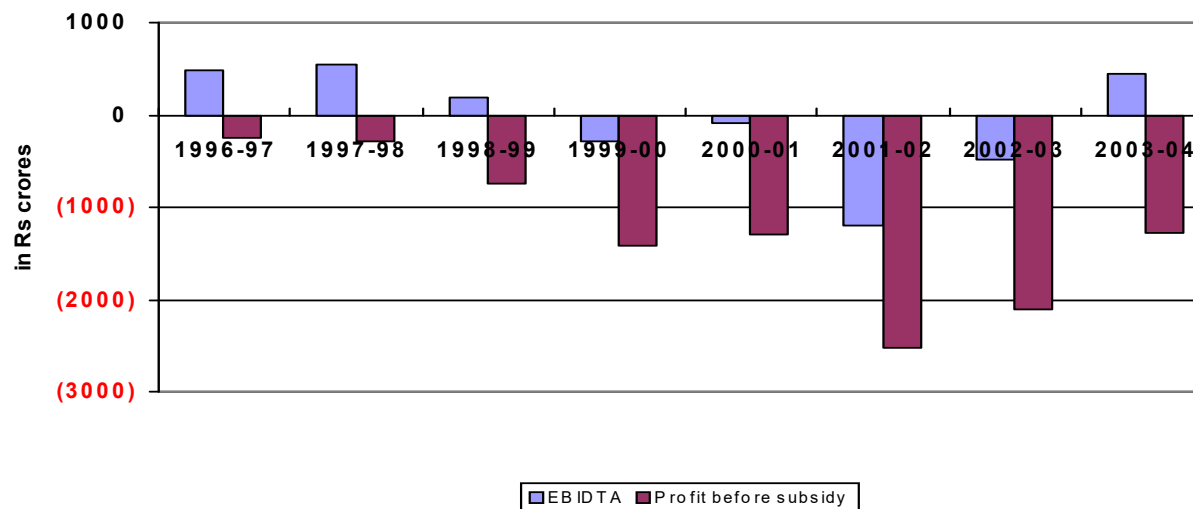


India: Managing contingent liabilities to restore fiscal health

Developed sub-module for SOE subsidies

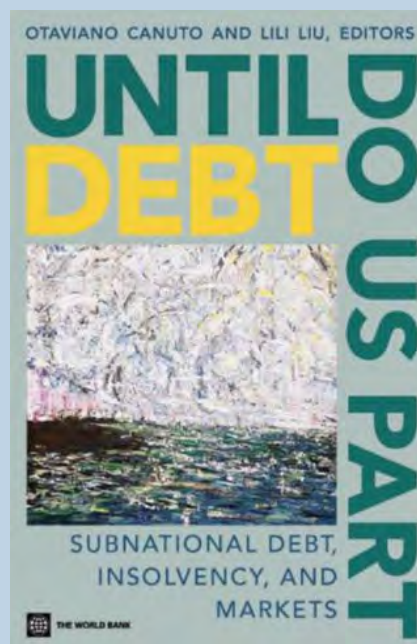
- State government support to SOEs through interest subsidies, and loan write-offs, and guarantees
- Sub-modules on contingent liabilities would be needed to develop for each of the important SOEs, for example, submodule for fiscal subsidies for power sector
- SOE monopoly in electricity transmission 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

PRINCIPLES FOR PUBLIC FINANCIAL MANAGEMENT

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International Lecture Series 2020

21 October

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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

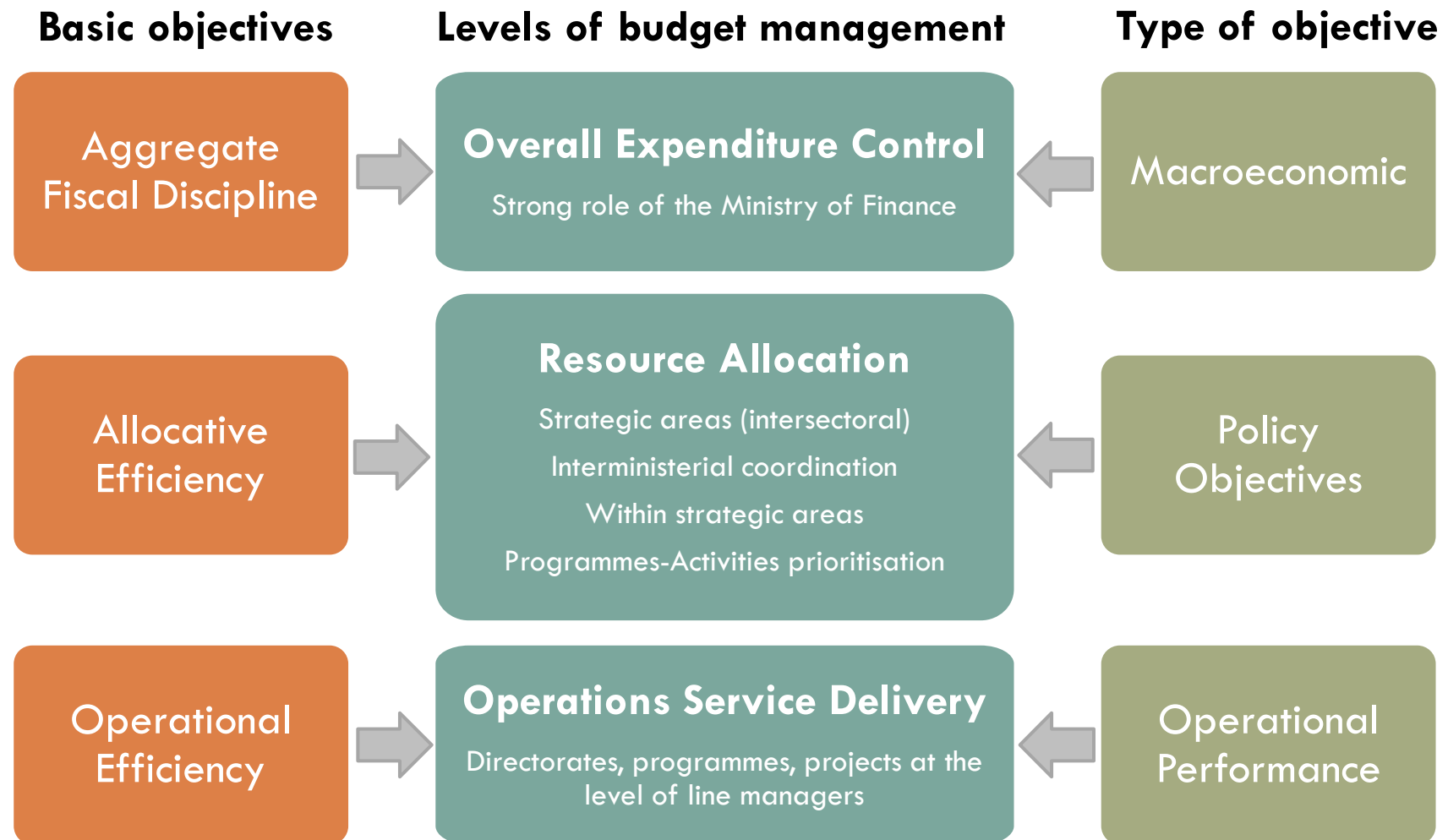
- Long term strategic vision for the economy
- Learning from doing during implementation (targets, monitoring, feedback loops)
- Transparency and accountability over policies, spending and results

II. What are the Objectives of Public Financial Management?

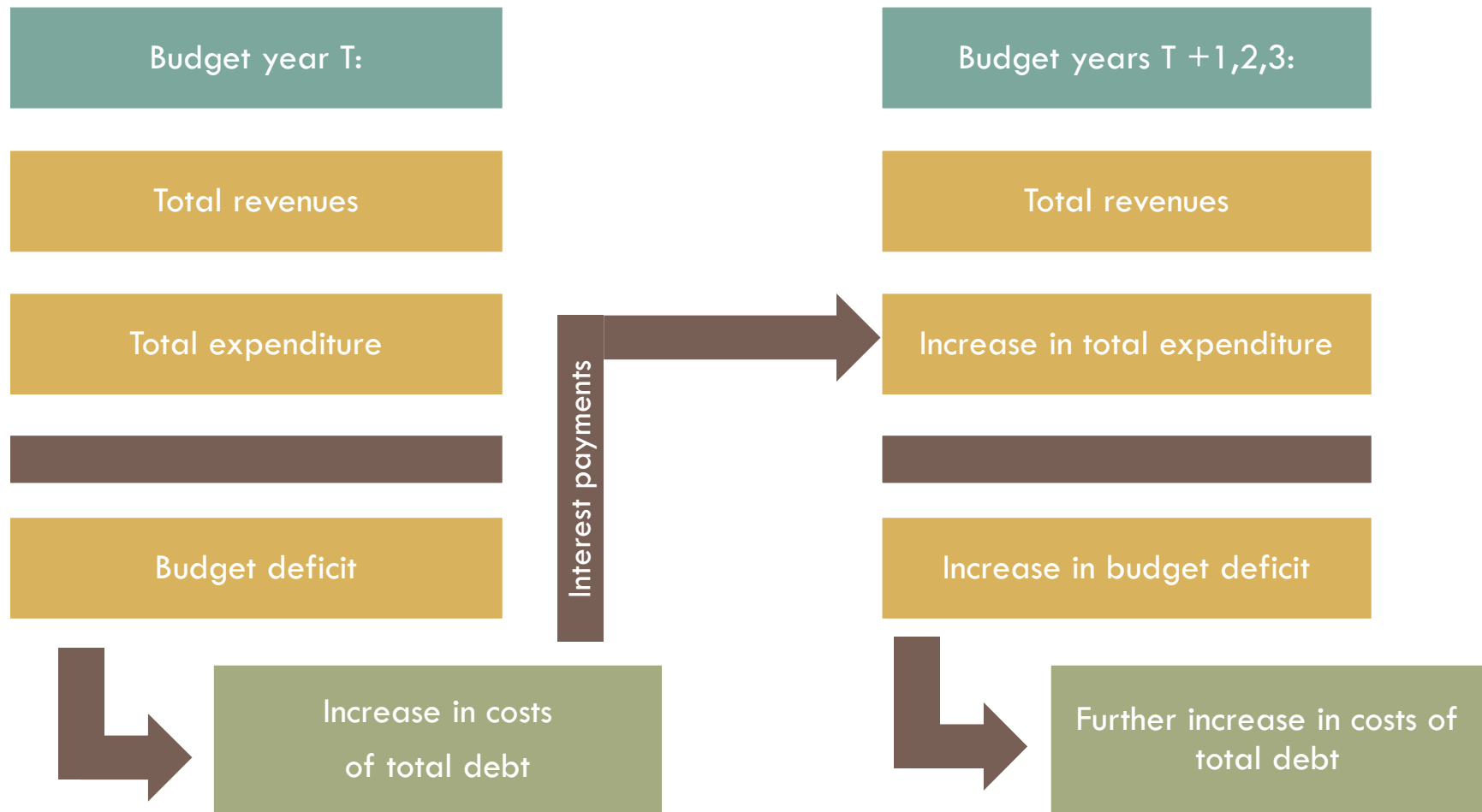
- Fiscal discipline
- Strategic resource allocation
- Operational efficiency



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



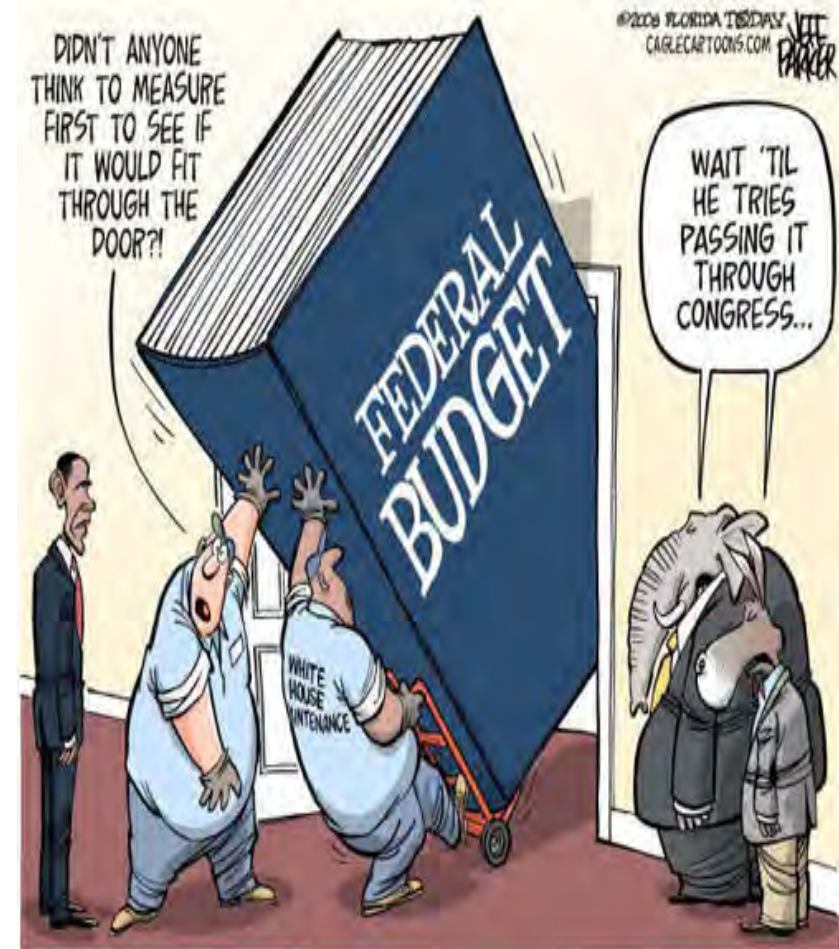
Mitigation Against Common Property Dilemma

The “Budget Institutions Solution”:

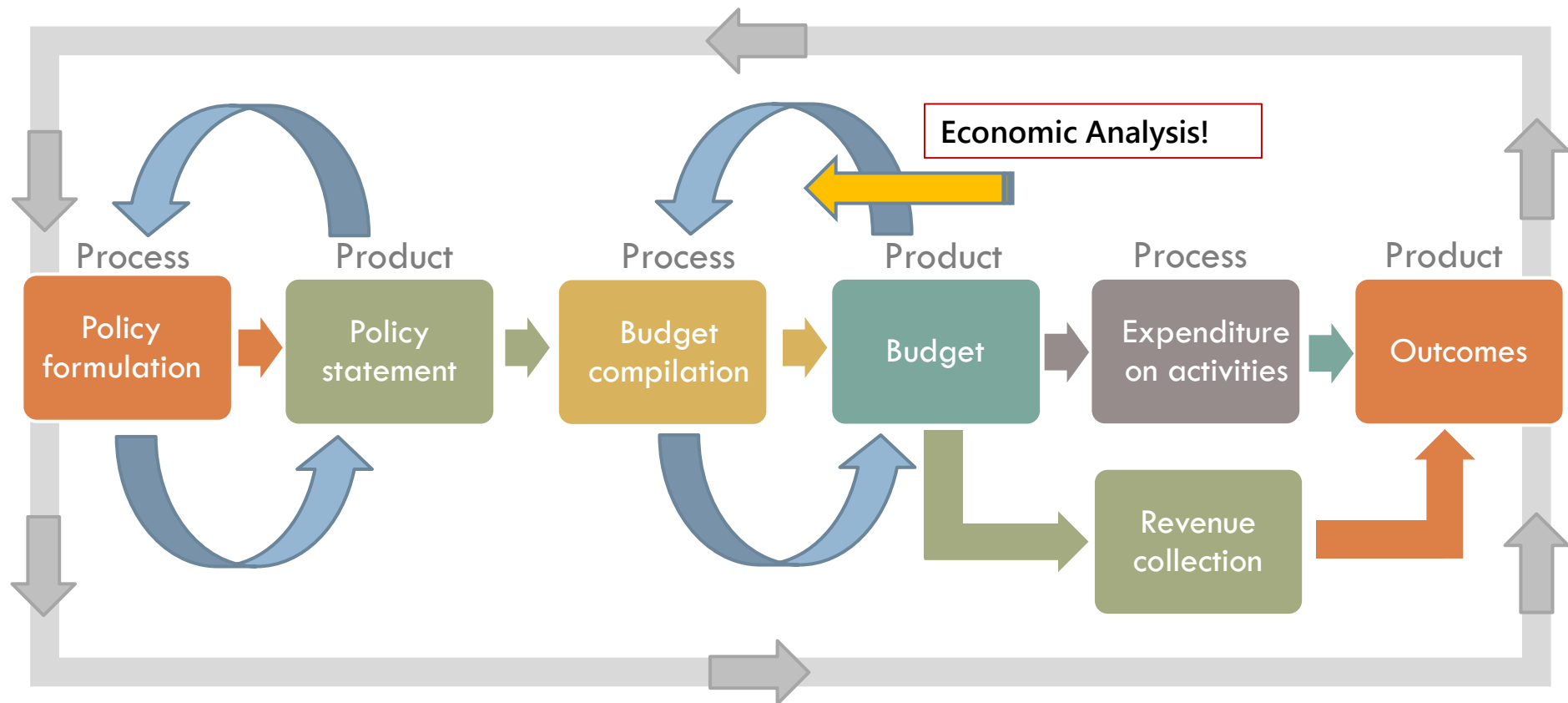
- ❑ Formal commitment to a common fiscal policy and development strategy before negotiating individual shares
- ❑ Therefore a “bounded” (restricted) negotiation strategy
- ❑ Maximum transparency over the Fiscal Policy, the Strategy, the Budget & Results

Budget vs. Budget Process

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



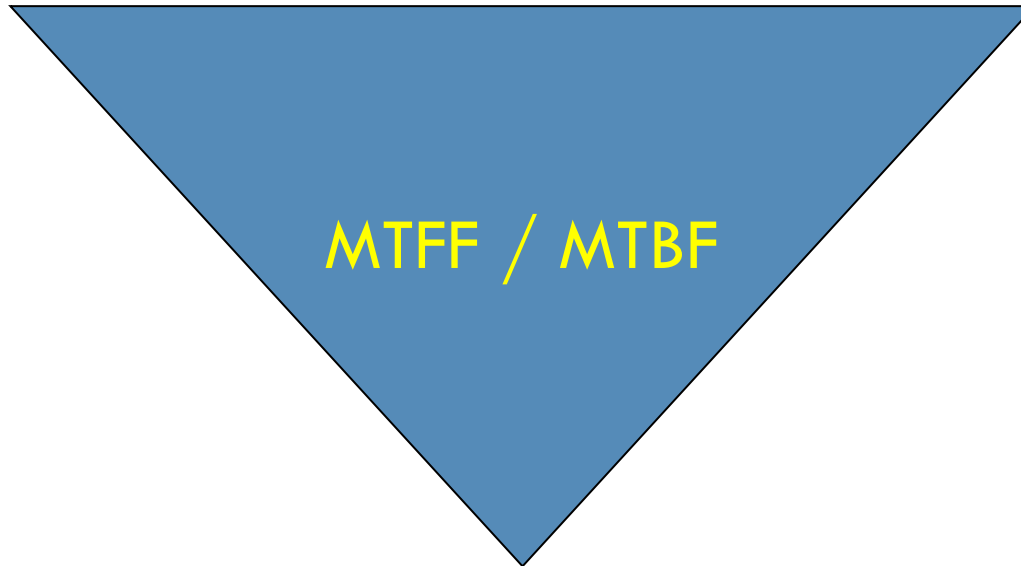
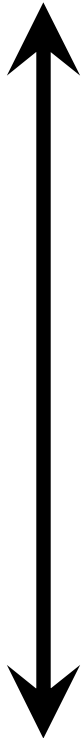
IV. From Policy to Outcomes: The Budget Cycle



Linking Policy to Delivery



Long-Term Development Plan



MTFF / MTBF

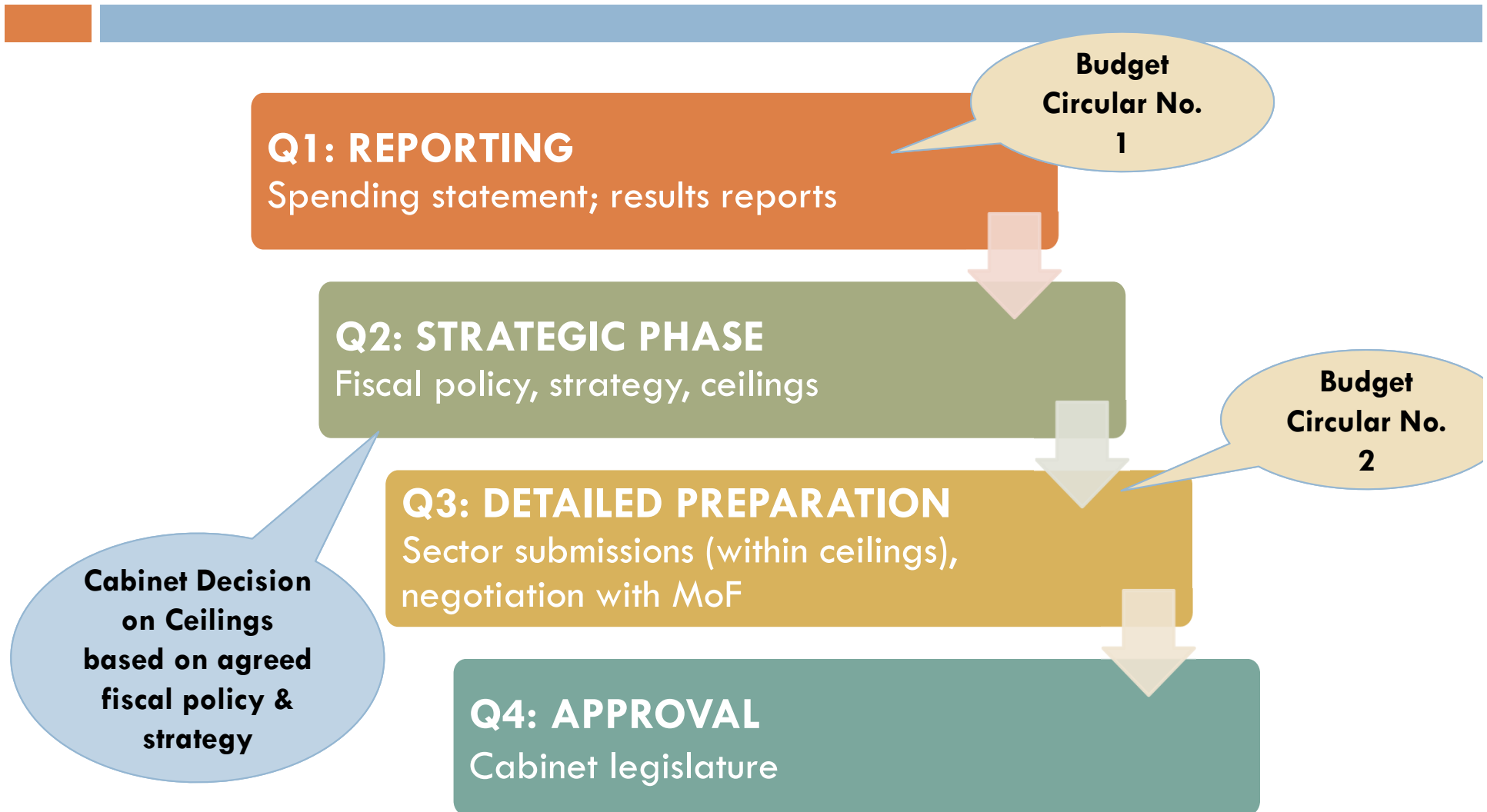
Annual Budgets

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



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

| | 2014 | 2015 | 2016 | 2017 | Projections | | | |
|--|-------|-------|-------|-------|-------------|-------|-------|-------|
| | | | | | 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 | Subclassification | Suppl Information | Division | Group | Class |
| Agriculture & Forestry | DG for Agriculture | Expenses | Employee Compensation | 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



Authorisation



Commitment



Verification



Payment authorization

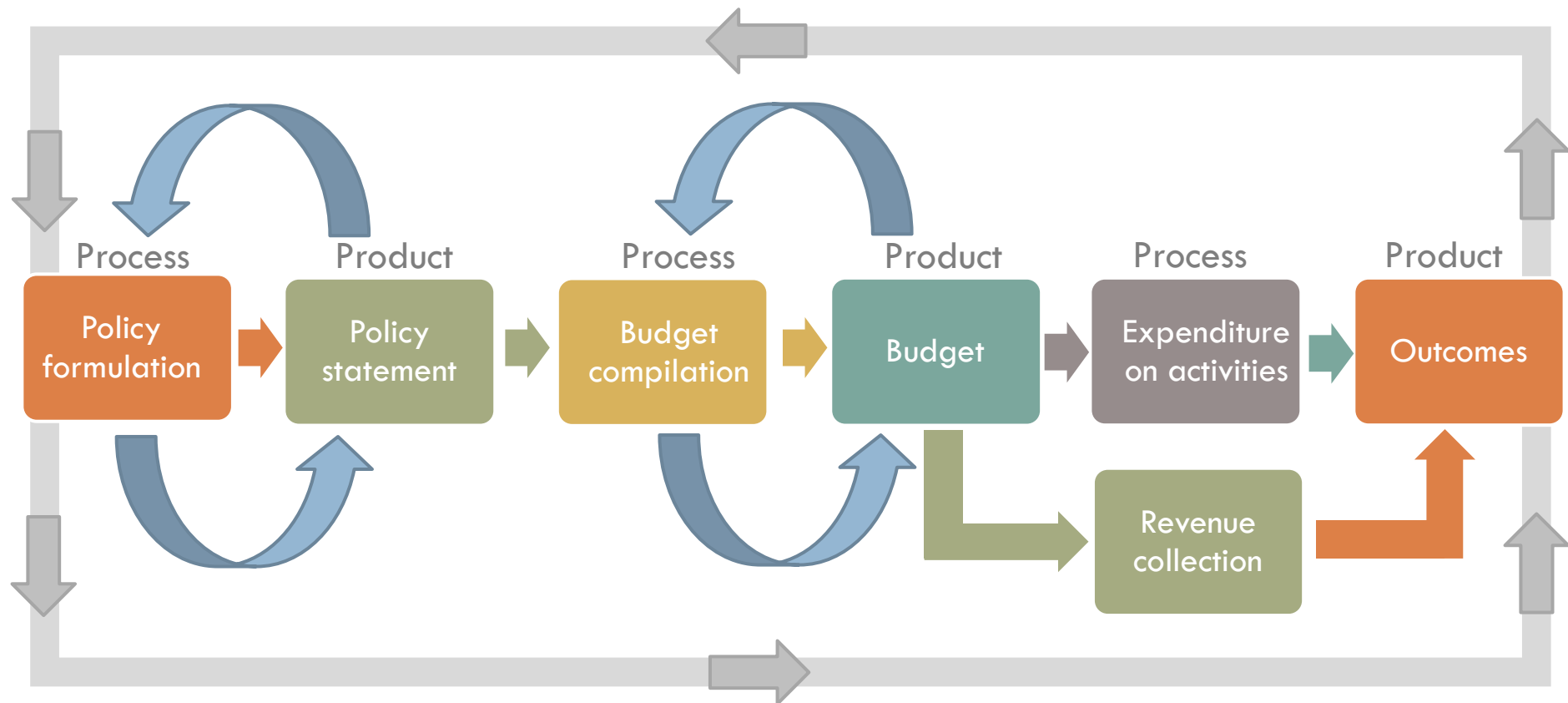


Cash payment

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

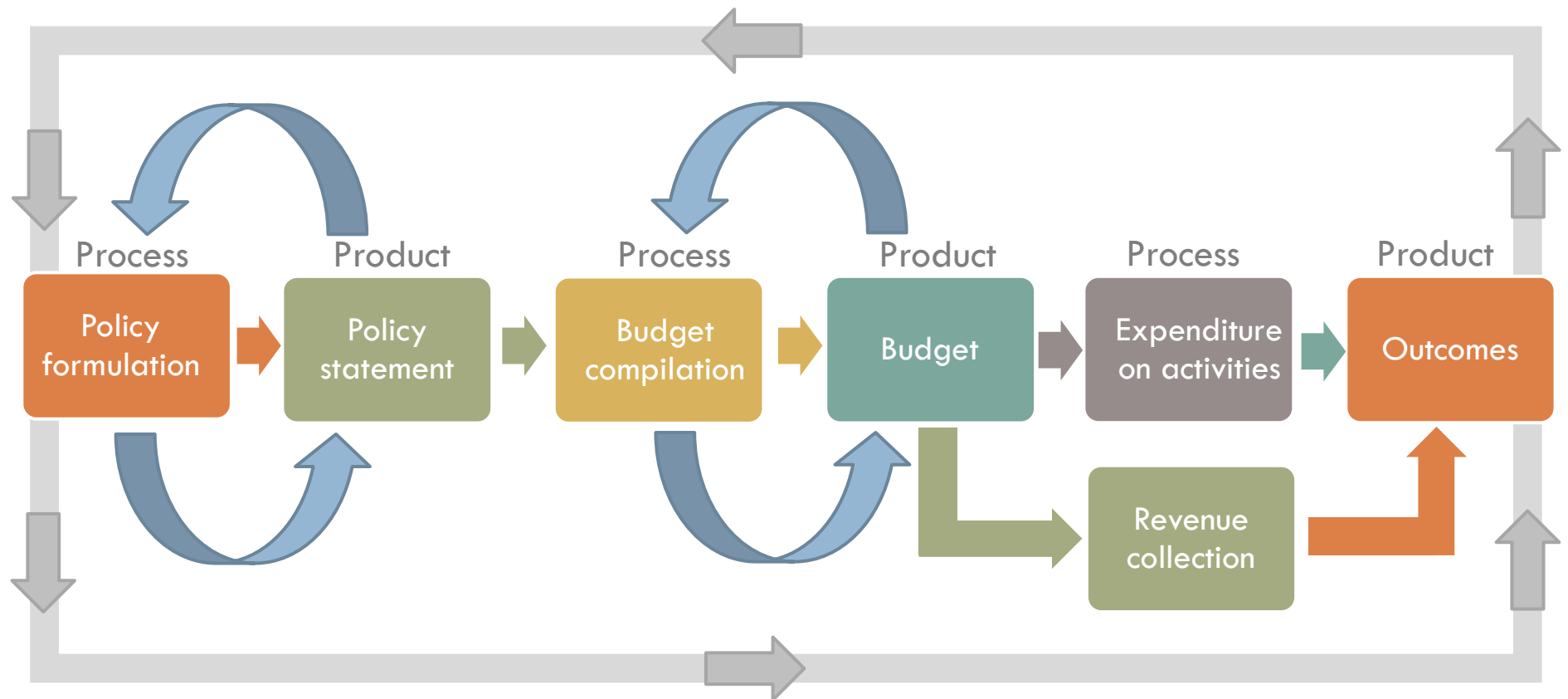


Type of Assessments

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

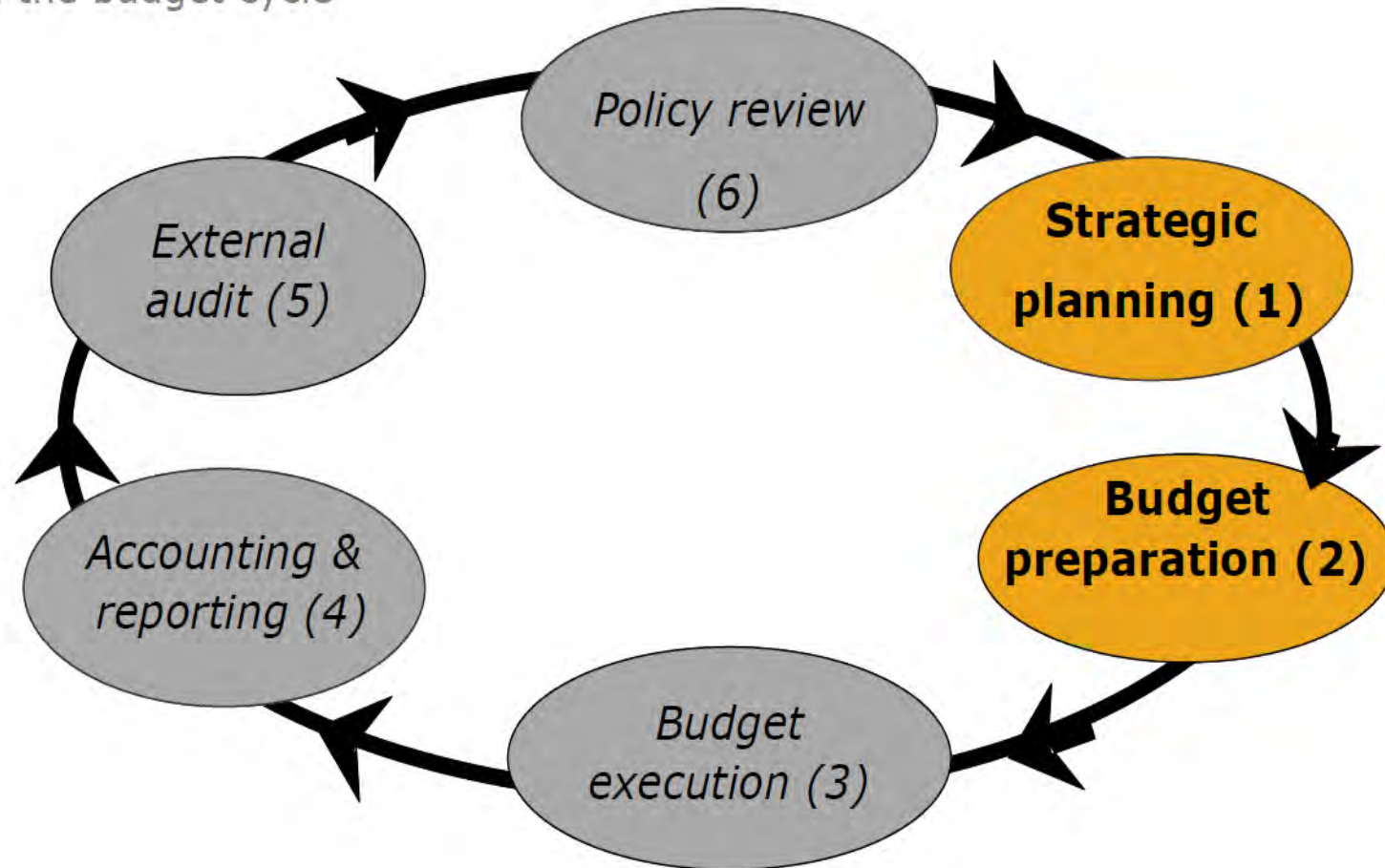


Place In The Budget Cycle



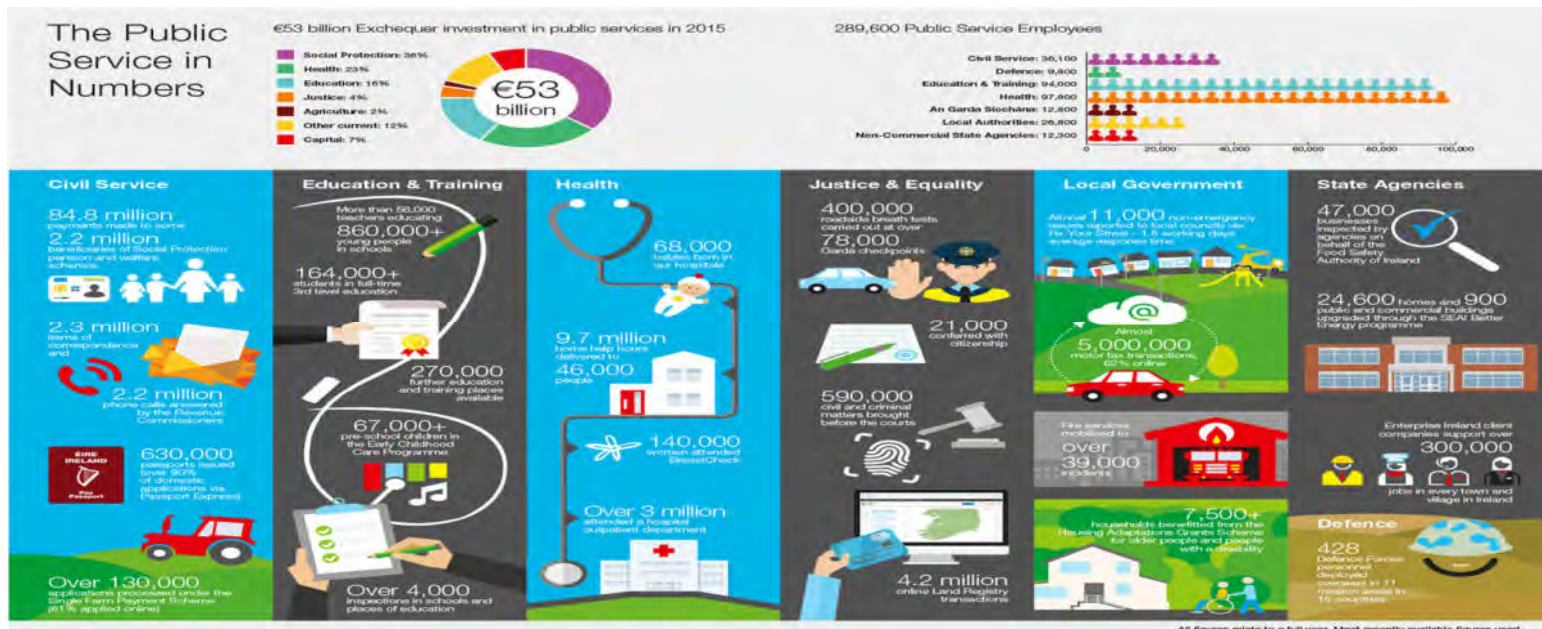
Public Expenditure Review (PER) in the Budget Cycle

PER in the budget cycle



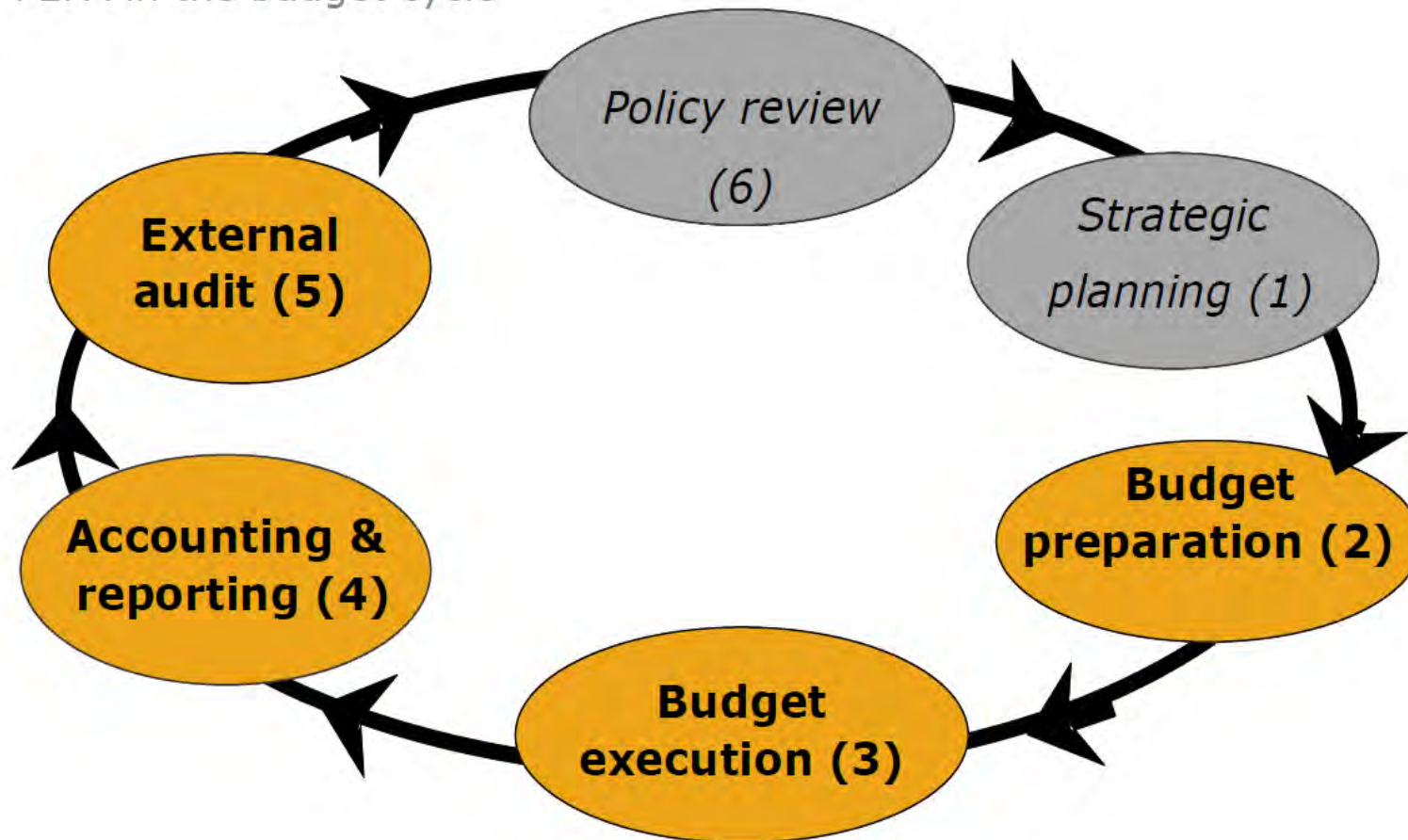
Scope and Focus of a PER

- **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

PEFA in the budget cycle



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.

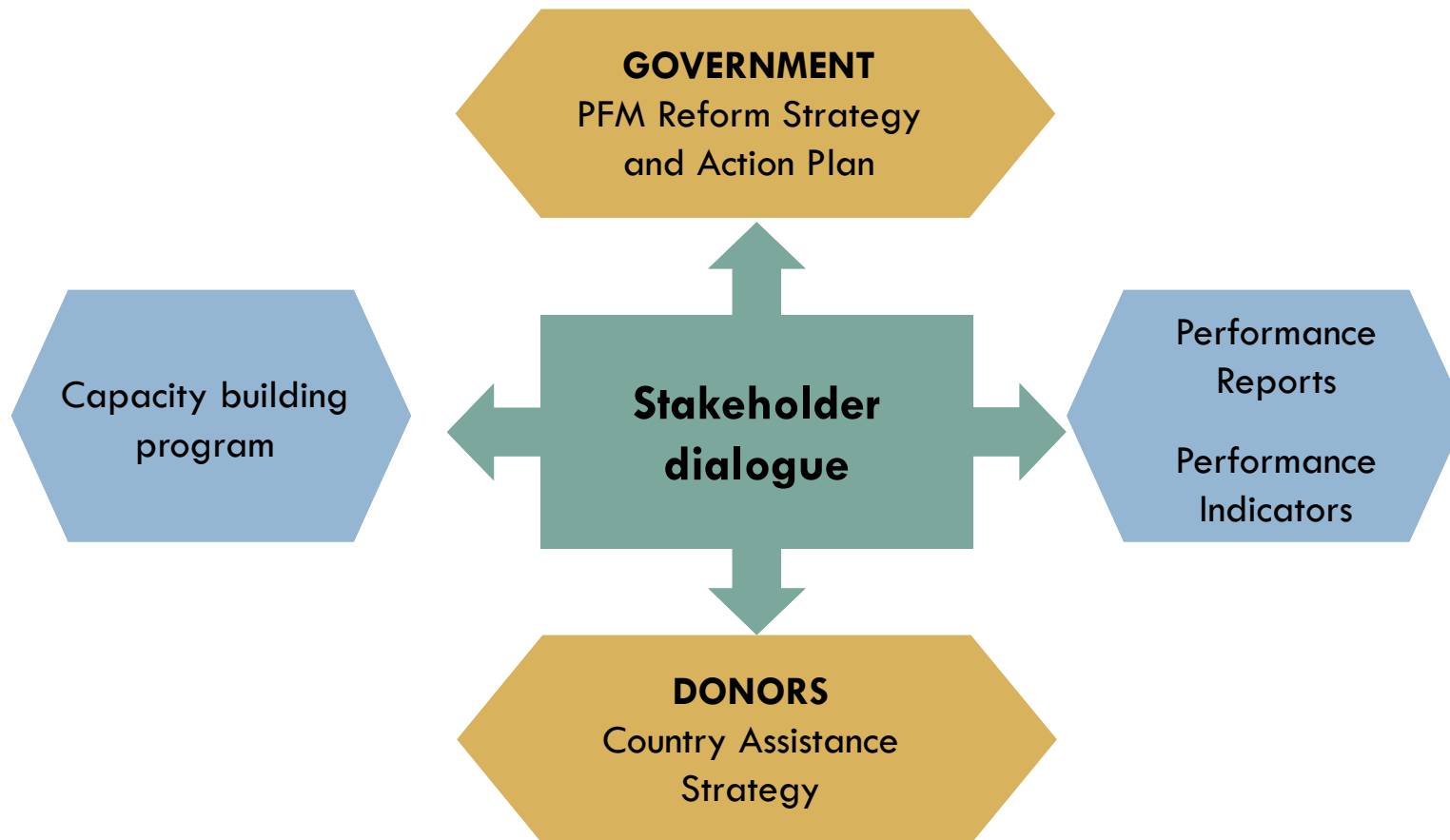
The indicators measure the operational performance of the key elements of the PFM system against the core dimensions of PFM performance.

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



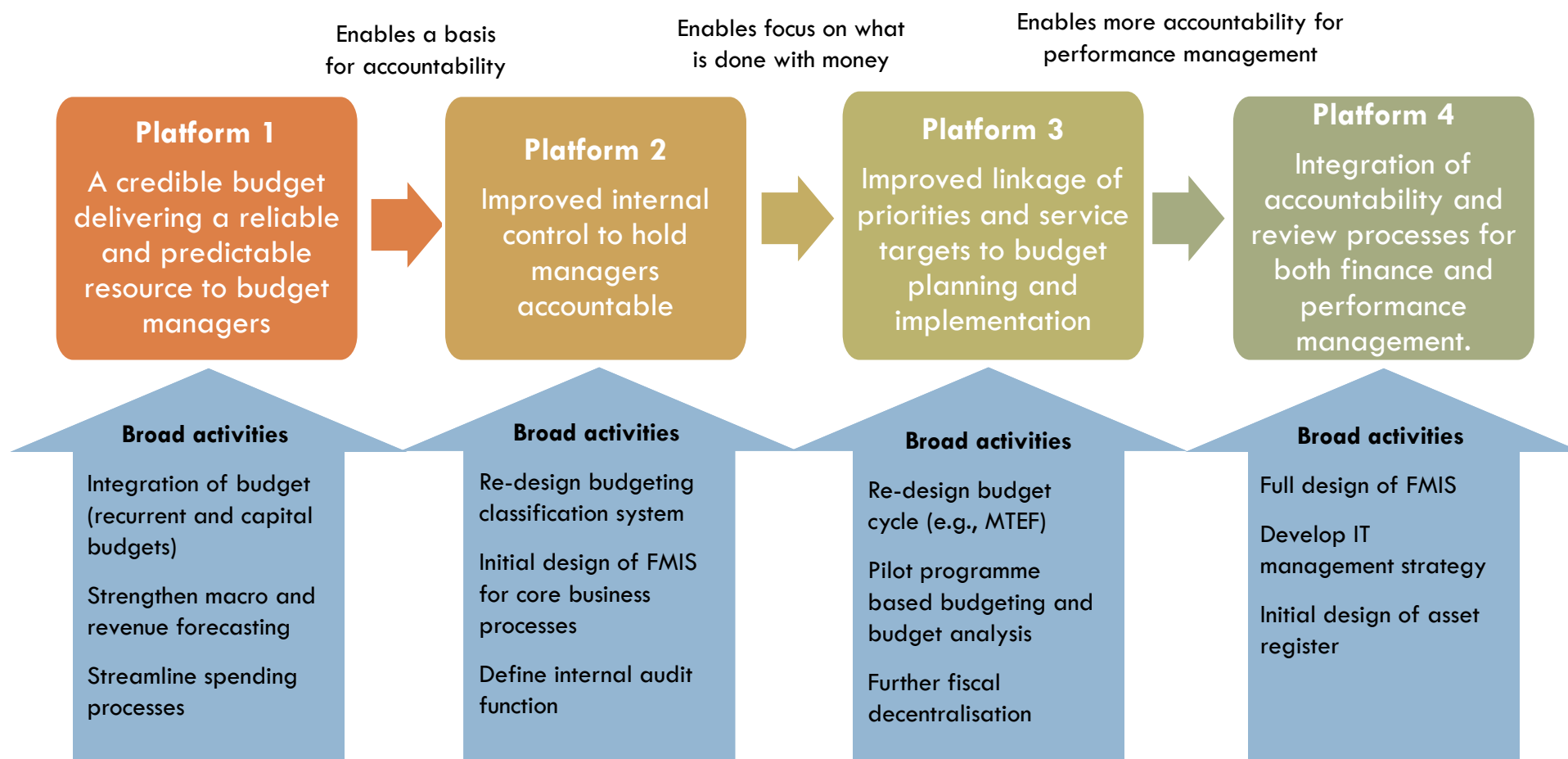
PEFA and PFM Reforms



Compiled from Allen et al 2004

Phasing PFM Reforms

Platform Approach



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>

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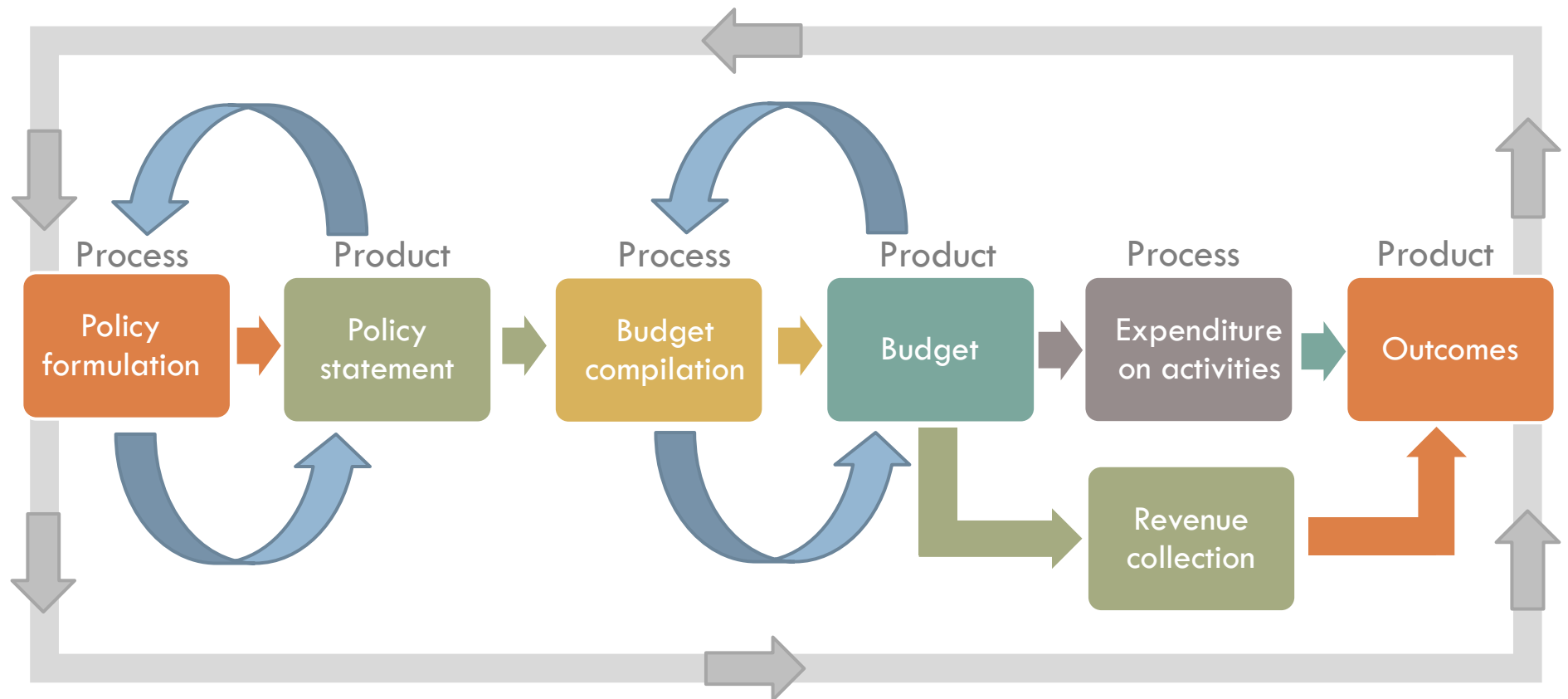


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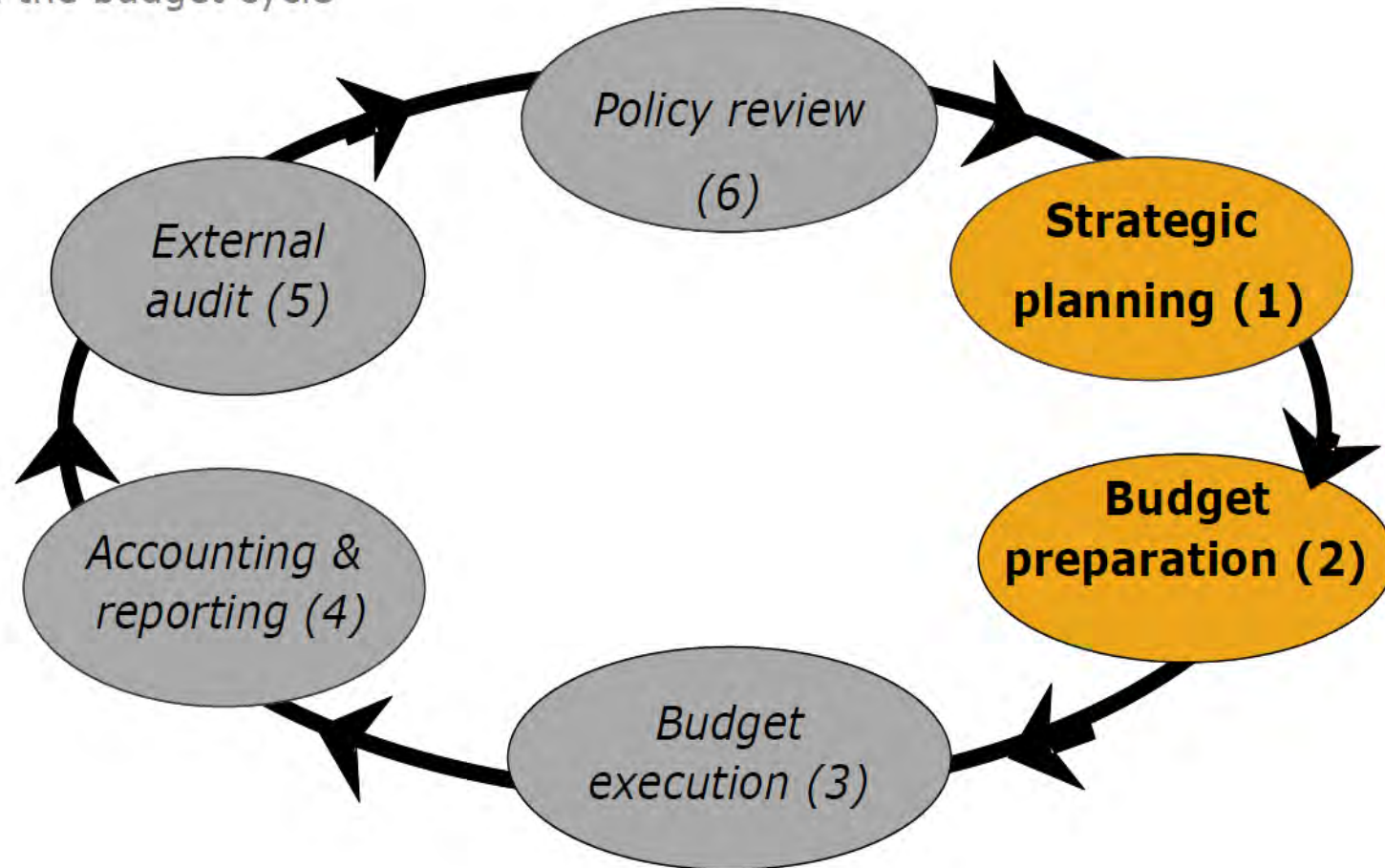


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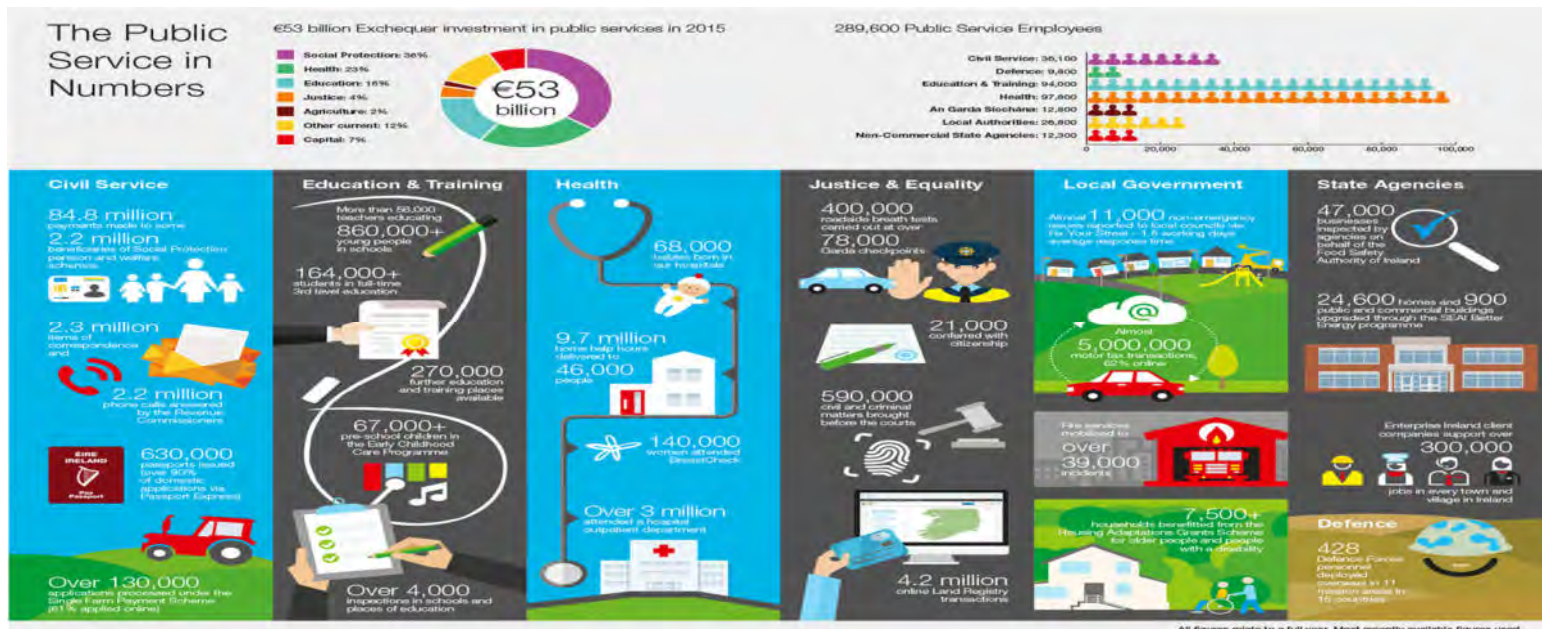
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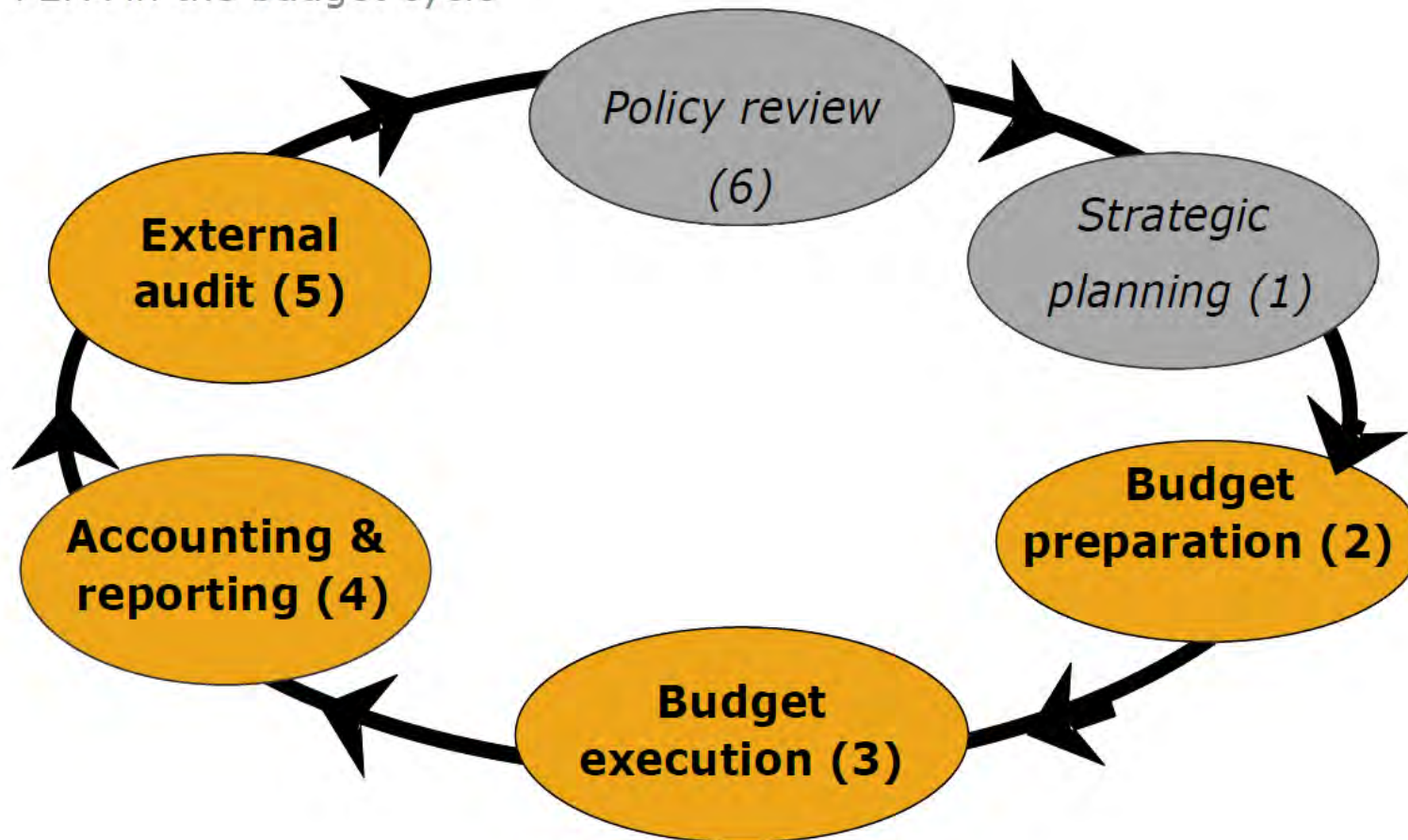
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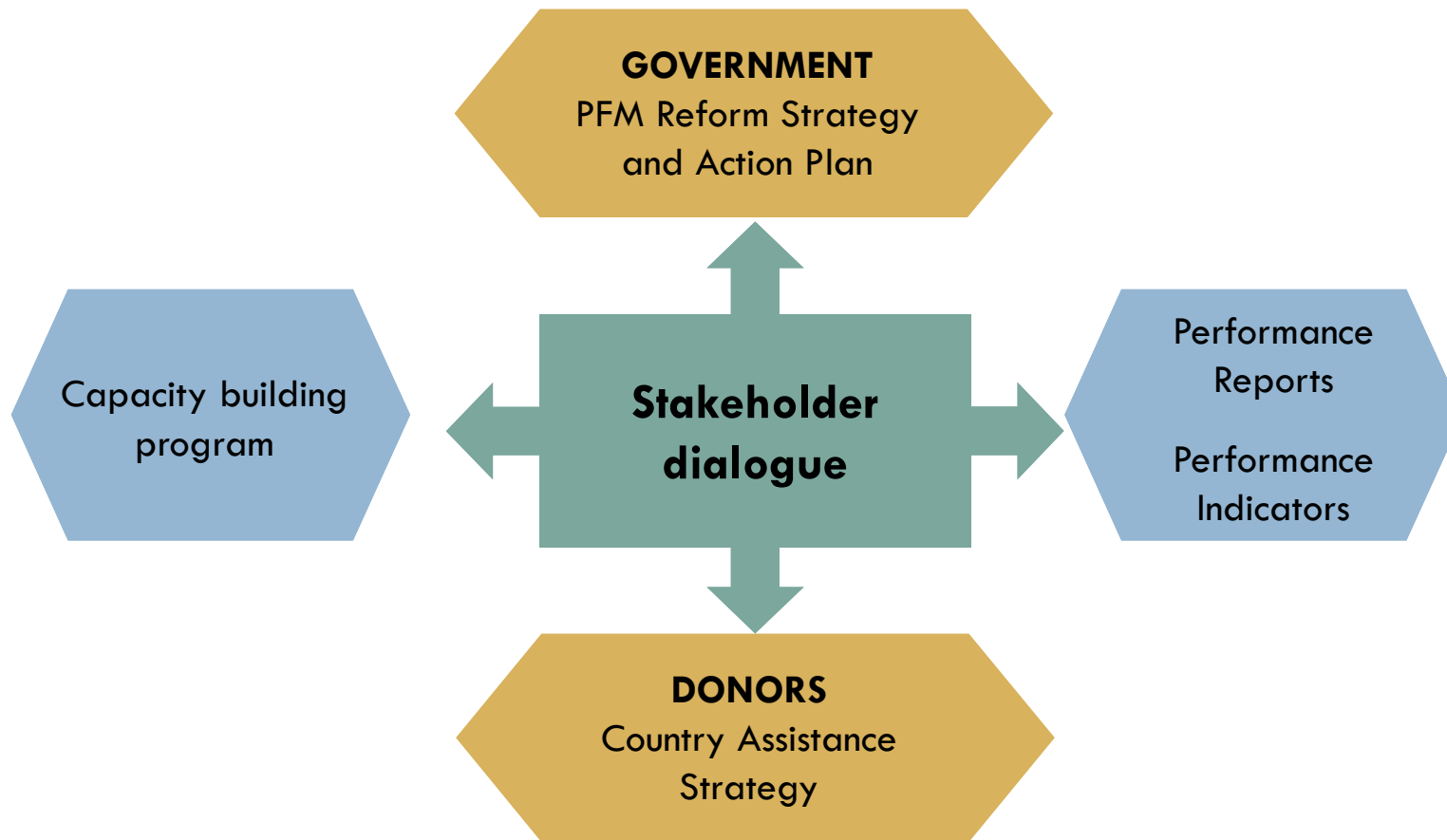
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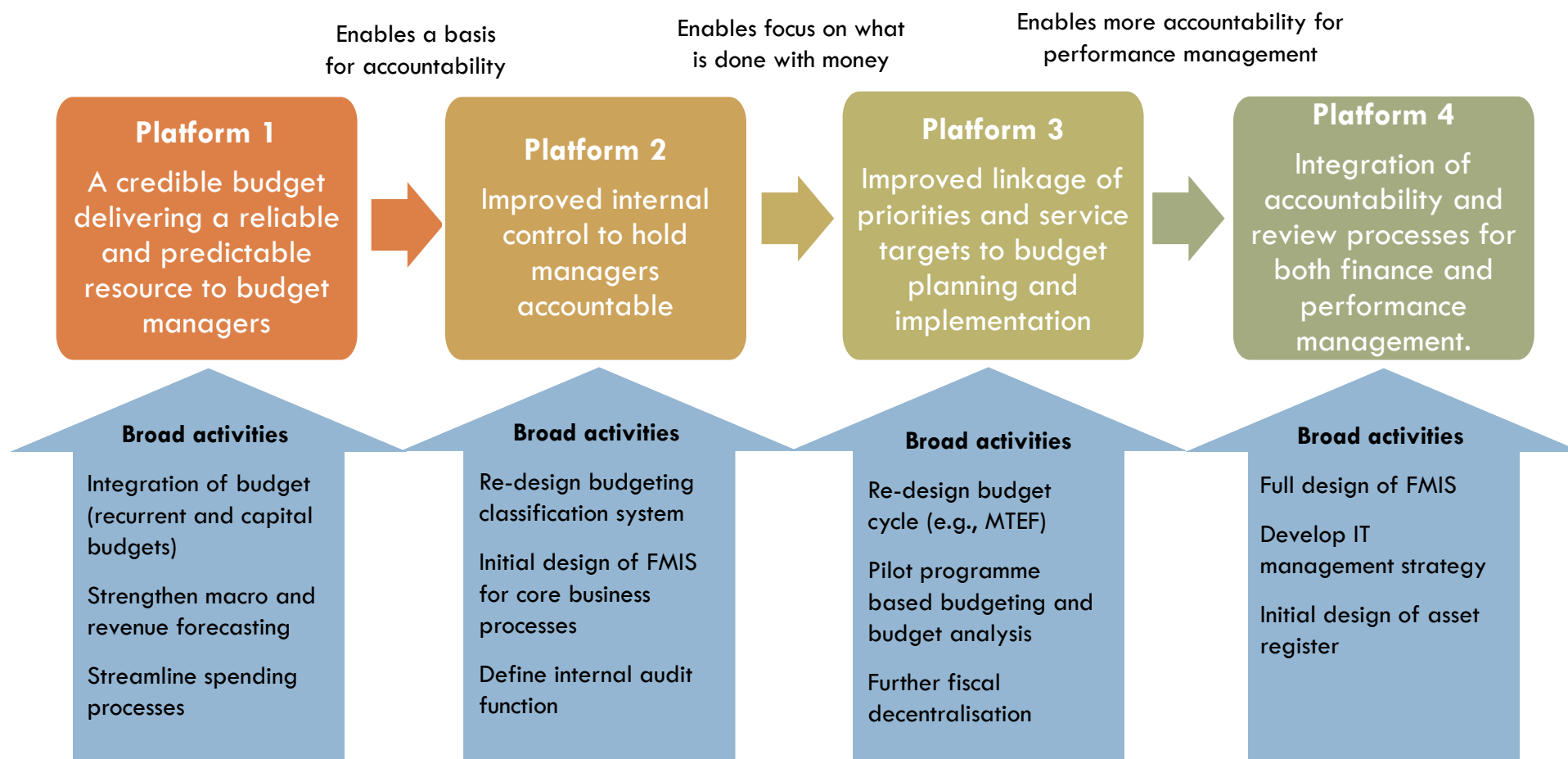
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