Macroeconomic Trends and Priorities for Sub-Saharan Africa

Workshop on the Role of Macro-Fiscal Units

Dar es Salaam, January 8, 2018
Outline

1. Strong growth, the downturn, the modest recovery

2. Immediate Priorities
   • Addressing debt vulnerabilities
   • Emphasis on revenue mobilization

3. Some critical medium-term challenges
Africa enjoyed a long period of strong growth

Sub-Saharan Africa: Average Real GDP Growth, 1980-2014

Source: IMF, World Economic Outlook database.
Important progress in human development (I)

EAC-5: Burundi, Kenya, Rwanda, Tanzania and Uganda
But since 2015 growth has weakened ...
Although many countries continue to grow rapidly
SSA has seen a modest recovery in 2017

EAC-5: Burundi, Kenya, Rwanda, Tanzania and Uganda
But not sufficient to raise GDP per capita in many countries

<table>
<thead>
<tr>
<th>Negative real GDP per capita growth</th>
<th>Positive real GDP per capita growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of countries</td>
<td>Percent of population</td>
</tr>
<tr>
<td>12</td>
<td>33</td>
</tr>
<tr>
<td>43%</td>
<td>57%</td>
</tr>
</tbody>
</table>
Outline

1. Strong growth, the downturn, the modest recovery

2. Immediate Priorities
   - Addressing debt vulnerabilities
   - Emphasis on revenue mobilization

3. Some critical medium-term challenges
Debt burdens have increased in SSA...

Source: REO, October 2017
Debt accumulation driven by large fiscal deficits and depreciation

Addressing debt vulnerabilities
- Emphasis on revenue mobilization
- Fostering economic diversification
Debt service costs have increased

Addressing debt vulnerabilities
Emphasis on revenue mobilization
Fostering economic diversification
Also in the EAC

Addressing debt vulnerabilities
Emphasis on revenue mobilization
Fostering economic diversification
Fiscal consolidation plans need to be implemented

Addressing debt vulnerabilities

Emphasis on revenue mobilization

Fostering economic diversification
Fiscal consolidation plans need to be implemented

Addressing debt vulnerabilities
Emphasis on revenue mobilization
Fostering economic diversification
Fiscal consolidation plans need to be implemented

Addressing debt vulnerabilities
Emphasis on revenue mobilization
Fostering economic diversification

Oil exporters
Other resource-intensive countries
Non-resource-intensive countries

Median public debt, percent of GDP

2011 2014 2017 2020
No adjustment
Baseline

2011 2014 2017 2020
No adjustment
Baseline

2011 2014 2017 2020
No adjustment
Baseline

Graphs showing the impact of fiscal consolidation plans on median public debt for oil exporters, other resource-intensive countries, and non-resource-intensive countries.
The same picture emerges in the EAC

EAC-4: Kenya, Rwanda, Tanzania and Uganda

Median Public Debt (percent of GDP)

- No adjustment
- Baseline

- 2011
- 2014
- 2017
- 2020

100
90
80
70
60
50
40
30
20
10
Best-laid plans may go astray

Fiscal risks

- General macroeconomic risks
- Specific risks, e.g., contingent liabilities
- Structural or institutional risks
Deficit drift and bias

Deficit drift occurs when deficits are higher than expected in the medium term.

Deficit drift can reflect:

• A failure to anticipate fiscal risks.
• The political cycle (temptation to spend more/reduce taxes ahead of elections).
• Politicians’ strong preference for spending in the present.
• The last two are factors behind “deficit bias”, i.e., a tendency to have deficits higher than desirable from a sustainability perspective.
Deficit Drift

Source: REO October 2017 and DSA reports for 2012

* Initial ratio was adjusted for countries with rebased GDP series

Kenya Malawi Rwanda Tanzania Uganda Zambia

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Kenya</td>
<td>34.4</td>
<td>52.6</td>
</tr>
<tr>
<td>Malawi</td>
<td>40.6</td>
<td>60.2</td>
</tr>
<tr>
<td>Rwanda</td>
<td>20.6</td>
<td>20.6</td>
</tr>
<tr>
<td>Tanzania</td>
<td>37.6</td>
<td>35.1</td>
</tr>
<tr>
<td>Uganda</td>
<td>38.5</td>
<td>37.3</td>
</tr>
<tr>
<td>Zambia</td>
<td>19.6</td>
<td>60.5</td>
</tr>
</tbody>
</table>

Source: REO October 2017 and DSA reports for 2012
* Initial ratio was adjusted for countries with rebased GDP series
Addressing debt vulnerabilities

Top priority in many SSA countries

Will require, in many countries, reducing fiscal deficits

Easier and timely in fast-growing countries, who don’t need fiscal stimulus

Mobilizing more revenue and spending more efficiently way to go
Significant potential for raising revenues

- Emphasis on revenue mobilization
- Fostering economic diversification

EAC-5: Uganda, Kenya, Rwanda, Tanzania and Burundi

Bar chart showing tax ratio, percent of GDP:
- Oil exporter
- Resource-intensive countries
- Non-resource intensive countries
- EAC-5

Addressing debt vulnerabilities
Outline

1. Strong growth, the downturn, the modest recovery

2. Immediate Priorities
   • Addressing debt vulnerabilities
   • Emphasis on revenue mobilization

3. Some critical medium-term challenges
Sustain Growth Through Diversification

Addressing debt vulnerabilities
Emphasis on revenue mobilization

Fostering economic diversification

EAC-5: Uganda, Kenya, Rwanda, Tanzania and Burundi

GDP per capita growth, 1962–2014 percent

Average export diversification, 1962–2014
(Higher values = less diversification)
Improve Infrastructure

Electricity Coverage

Europe  India  Sub-Saharan Africa

Source: NASA
Seize the Demographic Dividend

Challenge or Opportunity?

Change in 15-64 Year Old Population

- China
- Rest of world
- Sub-Saharan Africa

Millions of persons

-100 -50 0 50 100 150 200 250 300 350

In some countries, mobile accounts now exceed bank accounts.

### Countries with more mobile accounts than bank accounts

(% age 15+) in Sub-Saharan Africa, 2014

- **Mobile account**
- **Bank account**

*Source: Global Findex, World Bank*

### East Africa leads mobile money transactions

Monthly $ million

- Central Africa
- Southern Africa
- Western Africa
- Eastern Africa

*Source: GSMA Mobile Money*
Thank you!

The online edition of the Regional Economic Outlook for sub-Saharan Africa is available at www.imf.org
Medium-Term Fiscal Frameworks and Fiscal Objectives: Concepts and Practices

Sami Yläoutinen

Strengthening the Role of Macro-Fiscal Units (MFUs) in Ministries of Finance

JANUARY 8, DAR ES SALAAM, TANZANIA
Outline of Presentation

I. Definition and Features
II. Why Medium-Term Fiscal Frameworks
III. Medium Term Fiscal Objectives and Rules
IV. Challenges
V. Conclusions
## I. Definition

<table>
<thead>
<tr>
<th>Objective</th>
<th>Instrument</th>
<th>Content</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foundation for fiscal objectives</td>
<td><strong>Fiscal Rule or Responsibility Law</strong></td>
<td>Principles of fiscal management</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Numerical fiscal rule</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Disclosure requirements</td>
</tr>
<tr>
<td>State multi-year fiscal policy targets</td>
<td><strong>Medium-term Fiscal Framework</strong></td>
<td>Multi-year macroeconomic forecast</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Multi-year fiscal forecast</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Medium-term fiscal target</td>
</tr>
<tr>
<td>Set multi-year spending plans</td>
<td><strong>Medium-term Budget Framework</strong></td>
<td>Multi-year expenditure ceiling</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Multi-year spending allocations</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Planning margin</td>
</tr>
<tr>
<td>Authorize annual expenditure</td>
<td><strong>Annual Budget</strong></td>
<td>Detailed expenditure appropriations</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Other budgetary controls</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Reconciliation of changes from MTBF</td>
</tr>
<tr>
<td>Report actual expenditure</td>
<td><strong>Final Accounts</strong></td>
<td>Detailed expenditure outturn</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Reconciliation of change from Budget</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Explanation of discrepancies</td>
</tr>
</tbody>
</table>
I. Definition and Features of Medium-Term Fiscal Frameworks

- **MTFF in a nutshell:**
  - A medium-term **macro-fiscal forecasts**: aggregate level of revenue, expenditure and financing
  - A comprehensive **statement of fiscal policy objectives and targets** consistent with macroeconomic stability and fiscal sustainability
    - Embedded within realistic and internally consistent medium term macroeconomic projections.
    - Best practice supplements this with transparent assessment of fiscal risks
II. Why Medium-Term Approach?

Common Budget Problems

- Unrealistic budgets
  - unaffordable, undeliverable, deferred
- No link to behavior
  - no buy-in, no cash controls, overspending, weak link to policy proposals
- Allocations don’t reflect priorities
  - short termism, choices not strategic
- Spending is inefficient
  - low productivity, poor management, corruption, poor planning
II. Why Medium-Term Approach? How Can It Help?

• Medium term planning does not automatically solve these problems but it can help to provide better
  • Macro-fiscal discipline
  • Transparency and market confidence
  • Strategic allocation of resources
  • Spending efficiency
III. Why Medium-Term Fiscal Objectives?
Part of the overall fiscal framework

- Medium-term Fiscal Objectives
- Accounting Principles
- Medium-Budget Framework
- Reporting Mechanisms
- Verification of Compliance
- Escape Clauses and Sanctions
III. Why Medium-Term Fiscal Objectives?

Can help with:

- Time-inconsistency problem
- Transparency and market confidence
- Fiscal policy trade-offs

But requires:

- Well developed forecasting
- Broad political commitment
- Balance between firmness and flexibility

Is consistent with political control over fiscal policy
III. Fiscal Objectives and Rules
“The Rules Approach”

**What?**

- Permanent constraint on fiscal policy, typically defined in terms of an indicator of overall fiscal performance
  - Balance, surplus or deficit
  - Expenditure
  - Debt
  - Revenue

**Why?**

- Create broad ownership and support
- Institutionalize key fiscal policy priorities

**How?**

- Irresponsible policies become politically costly
- Annual budget plans can be benchmarked against a numerical indicator

### Balance, surplus or deficit

- **Good for planning ...**
- **... but more difficult to execute**
- **Can be pro-cyclical**

<table>
<thead>
<tr>
<th>Golden rule</th>
<th>Cyclically adjusted balance</th>
<th>Average over the cycle</th>
<th>Non resource balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Protects investment ...</td>
<td>• Promotes counter-cyclical policy ...</td>
<td>• Allows for both automatic and discretionary stimulus ...</td>
<td>• Can help to delink policy from the volatility of resource revenue...</td>
</tr>
<tr>
<td>• ... but does not capture other growth-enhancing expenditure</td>
<td>• ... but is ambiguous both ex ante and ex post</td>
<td>• But cannot be verified until the cycle is closed</td>
<td>• ... but can be ambiguous</td>
</tr>
</tbody>
</table>

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*Image credits to European Union*

Expenditure

- Operational—targets what the government controls
- Allows counter-cyclical revenue policies ...
- ... but requires advanced budgeting, accounting and control

**Fixed or flexible**
- Fixed ceilings promote discipline ...
- ... particularly when they apply to outturn ...
- ... but require stable conditions

**Time horizon**
- Multi-year ceilings create stability and predictability ...
- ... but are subjected to more uncertainty

**Coverage**
- Comprehensive ceilings promote aggregate discipline ...
- ... but are subjected to more volatilities

**Inflation adjustment**
- Real ceilings reduce transparency ...
- ... but protects the room for expenditure during varying inflation
### III. Fiscal Objectives and Rules: “The Rules Approach”

#### Debt

- Relevant indicator for the medium to long term ...
- ... but difficult to operationalize into the budget process

<table>
<thead>
<tr>
<th>Gross or net debt</th>
<th>Foreign debt</th>
<th>Central or general government debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Gross debt is less open to subjective definitions ...</td>
<td>• Will typically change in the short term for reasons not related to fiscal policy decisions</td>
<td>• General government is a more relevant indicator ...</td>
</tr>
<tr>
<td>• ... and not by asset valuation changes ...</td>
<td></td>
<td>• ... but can fluctuate in the short term if local governments borrow</td>
</tr>
<tr>
<td>• ... but can be reduced by privatization</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Choosing an Indicator

- Central or local government
- Exclusion of certain categories

- Expenditure, deficit, debt
- Counter cyclicality

- Annual or ‘over the cycle’
- Outturn lag
- Cyclical adjusted

- Time-bound
- Verifiable
- Relevant
- Comprehensive
### III. Fiscal Objectives and Rules: “The Rules Approach”

Examples

<table>
<thead>
<tr>
<th>FISCAL INDICATOR</th>
<th>COUNTRY TARGET</th>
<th>EVALUATION CRITERIA</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Simple</td>
</tr>
<tr>
<td>Expenditure Rule</td>
<td>Finland Total Expenditure Ceiling</td>
<td>✓</td>
</tr>
<tr>
<td>Overall Balance</td>
<td>Mexico Zero Balance</td>
<td>✓</td>
</tr>
<tr>
<td>Gross Debt</td>
<td>Botswana Debt ceiling of 45% of GDP</td>
<td>✓</td>
</tr>
<tr>
<td>Golden Rule</td>
<td>Japan Borrowing=Investment</td>
<td>✓</td>
</tr>
<tr>
<td>Balance over Cycle</td>
<td>United Kingdom Current Balance over Cycle</td>
<td>✓</td>
</tr>
<tr>
<td>Structural Balance</td>
<td>Chile 1% of GDP Structural Surplus Every Year</td>
<td>✗</td>
</tr>
<tr>
<td>Non-oil Balance</td>
<td>Timor-Leste Non-oil balance set in line with sustainable income</td>
<td>✗</td>
</tr>
<tr>
<td>Debt Brake</td>
<td>Switzerland Structural Balance over the Medium-term</td>
<td>✗</td>
</tr>
</tbody>
</table>
III. Fiscal Objectives and Rules: “The Transparency Approach”

What does it mean?

• The rules approach relies on (permanent) numerical targets

• The transparency approach relies more on
  i. Outlining principles for fiscal policymaking,
  ii. A requirement for the government to set a target for one or more fiscal indicators,
  iii. Arrangements for reporting performance against those targets

• ... but it’s important to avoid undermining the credibility of the framework by frequent changes

• Explicit revision clause in place (e.g. targets to be reassessed every four years to reevaluate long-term price assumptions and variations in oil reserve estimates)

• Why transparency approach?
  • Volatility (e.g. resource revenues)
  • Distance from a steady state
### III. Fiscal Objectives and Rules: “The Transparency Approach” Examples

<table>
<thead>
<tr>
<th>Country</th>
<th>Fiscal Principles</th>
<th>Statement Contents</th>
<th>Sample Rules/Objectives</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Australia</strong></td>
<td>• Keep debt at prudent levels</td>
<td>• LT fiscal objectives</td>
<td>• Balance on ave over cycle</td>
<td></td>
</tr>
<tr>
<td>Charter of Budget Honesty (1998)</td>
<td>• Adequate national savings</td>
<td>• ST fiscal targets</td>
<td>• Surpluses over forecast period</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Moderate cyclical fluctuations</td>
<td>• Budget priorities</td>
<td>• No increase in tax burden from 1996-7 levels</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Ensure stable tax system</td>
<td>• Stabilization measures</td>
<td>• Improve net worth over M-LT</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Regard to future generations</td>
<td>• Accounting basis</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>New Zealand</strong></td>
<td>• Keep debt at prudent levels</td>
<td>• LT fiscal objectives</td>
<td>• Operating surplus on ave over cycle</td>
<td></td>
</tr>
<tr>
<td>Public Finance Act (1989)</td>
<td>• Balance operating budget over reasonable period</td>
<td>• ST fiscal intentions</td>
<td>• Keep net debt below 40% of GDP &amp; reduce to 30% by early 2020s &amp; 20% over the LT</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Maintain adequate net worth</td>
<td>• S &amp; LT fiscal projections</td>
<td>• Net worth rising by early 2020s</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Prudently manage fiscal risks</td>
<td>• Assessment of consistency w/ principles</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Ensure stable tax system</td>
<td>• Golden Rule: Balance the current budget over the cycle</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>United Kingdom</strong></td>
<td>• Transparency</td>
<td>• Fiscal rules for Parliament</td>
<td>• Sustainable Investment Rule: Keep debt below 40% of GDP</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Responsibility</td>
<td>• LT fiscal projections</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Fairness</td>
<td>• Analysis of cyclical impact</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Efficiency</td>
<td>• Golden Rule: Balance the current budget over the cycle</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- LT = Long-term
- ST = Short-term
- M-LT = Medium-term
- GDP = Gross Domestic Product
V. Challenges to effective macro-fiscal frameworks: Data

1. Limited data to build tools and reliable forecasts of GDP, inflation, exchange rates:
   • Sparse historical GDP data needed to build models/tolls and update parameters and forecasts
   • That much more challenging to produce reliable forecasts for the medium term
V. Challenges to effective macro-fiscal frameworks: Skills

2. Limited skills to develop and maintain tools:
   • Various crisis during the 1980s/1990s/2000s (economic/political/social/health) resulting in erosion of skills
   • Seniority and coaching of juniors in Ministries of Finance?
V. Challenges to effective macro-fiscal frameworks: Uncertainty

3. Highly uncertain external conditions:
   • Trading partners’ incomes affect demand for exports of goods and services:
     • Commodities, tourism
     • Volatility in international commodity prices:
       • Both imports (e.g. oil) and exports (e.g. metals – despite the recent boom)
   • Dependence on other uncertain external revenues
     • Official grants/loans
V. Challenges to effective macro-fiscal frameworks: 
Policy inconsistency

Weak strategic decision making leading to deviation in fiscal parameters between budget outlook papers and final budgets
VI. Conclusions

1. MTFF a starting point of macro-fiscal planning

2. Fiscal objectives can be expressed in many different ways, but should be: i) transparent; ii) stable; iii) comprehensive; iv) realistic

3. Choice between rules or transparency approaches depends on country specific factors

4. Creating an efficient macro-fiscal framework is challenging but underlying issues can be gradually addressed
The Macro-Fiscal Function and its Organizational Arrangements

Ian LIENERT
CONSULTANT

Session 1.2 of the Regional Macro-Fiscal Workshop
Outline

Part I: Main Components of the Macro-Fiscal Function
Part II: Main Macro-Fiscal Outputs
Part III: Organizational Arrangements for the Macro-fiscal Function
Part I: Main Components of the Macro-Fiscal Function

1. Macroeconomic and fiscal modeling and forecasting, including debt sustainability analysis (DSA)
2. Macro-fiscal policy analysis
3. Fiscal risk analysis
4. Monitoring macroeconomic and fiscal developments
1. Macroeconomic and fiscal modeling and forecasting

• Macroeconomic modeling and forecasting
• Fiscal modeling and forecasting
• Debt sustainability analysis
1a. Macroeconomic modeling and forecasting

- Macroeconomic assumptions and objectives
- Economic growth – GDP and its components
- Inflation: a target or determined?
- “Fixed” variables, for forecasting purposes
  - Exchange rate – nominal or real exchange rate
  - Interest rates
  - Oil / commodity prices
1a. Macroeconomic modeling and forecasting (continued)

Choice of “Model”:
1. No model: target key variables, GDP, inflation,..
2. Simple economy-wide model, mainly with accounting identities, e.g. Financial Programming Framework
3. Sophisticated macroeconomic model, with many behavioral equations (and much data!)
4. Special-purpose models: e.g., Applied General Equilibrium models.
1b. Fiscal modeling and forecasting

- Revenue forecasting – many domestic revenues depend on economic variables
- Expenditure forecasting – few expenditures depend on economic variables
- Deficit – under unchanged policies – baseline projections
- Deficit – inclusive of new fiscal policies to attain fiscal balance (and debt) objectives
- Deficit financing – Grants and Borrowing

For the MFU: A combination of technical and analytical work.
1c. Debt sustainability analysis

- Persistent fiscal deficits led to higher and higher debt.
- MFU should examine dynamics of deficits and debt: “Will debt/GDP stabilize or decline in the future?” i.e., reach a sustainable fiscal position
- DMO manages the debt portfolio
- Low-income countries: need to project future grant-financing (unconditional and conditional)
2. Macro-fiscal policy analysis

• MFU analyses the impact of fiscal policy changes that help achieve budgetary objectives
• MFU prepares short-, medium- and long-term scenarios of fiscal position under different assumptions
• MFU proposes changes in fiscal policies based on the analysis
2. Macro-fiscal policy analysis (continued)

- Initially this function is confined to revenue and expenditure policy changes of the central government’s annual budget – examining their annual and MT impacts (e.g., over 3 years)

- More sophisticated analyses include:
  - Budgetary impact of off-budget and extrabudgetary activities/agencies, including public enterprises
  - Balance sheet analysis – government assets (as well as liabilities)
  - Impact of fiscal policy changes on economic growth
3. Fiscal risk analysis

Definition: Fiscal risk is the possibility of short- to medium-term deviations in fiscal variables as compared to what was anticipated in the medium-term fiscal framework or annual budget.

Fiscal Risk Analysis and Management:
- Identifies key fiscal risks, e.g., from assumptions, external shocks, off-budget activities
- Monitors and quantifies (if possible) fiscal risks
- Proposes policy changes to cope with fiscal risks
4. Monitoring macroeconomic and fiscal developments

Monitoring leads to a view as to whether fiscal policies (or the MT fiscal framework) should be modified.

- Monitoring the macro economy, fiscal policy implementation and budget execution, in order to identify deviations from the forecasts.
- Monitoring fiscal risks
- Preparing analytical reports on recent macroeconomic and fiscal performance and revised perspectives.
- Maintaining an up-to-date database of macro-fiscal developments
- Updating projections at regular intervals.
The MFU should prepare various documents (for the Government, Parliament, publication) at key points of the budget cycle, especially:

- Medium-term fiscal strategy statement (MTFSS)
- Medium-term fiscal framework (ideally, for “general government”) and budget strategy and framework (for central government) and DSA
- Fiscal risk statement
- In-year fiscal monitoring reports
<table>
<thead>
<tr>
<th>Budget Cycle</th>
<th>Monthly or quarterly</th>
<th>Twice a year</th>
<th>Annual</th>
<th>Periodic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-budget review and/or mid-term review</td>
<td></td>
<td>Updates of the MTFSS</td>
<td>Medium-term fiscal strategy statement</td>
<td>Long-term fiscal projections (20-50 years)</td>
</tr>
<tr>
<td></td>
<td>In-year economic and fiscal reports (development of revenues, spending, balance, debt)</td>
<td>Updates of MT budget strategy, objectives, macro-economic and fiscal projections</td>
<td>Strategy and policy priorities for annual budget</td>
<td>(optional) Pre- and post-election fiscal updates</td>
</tr>
<tr>
<td>Draft annual budget (presentation to legislature)</td>
<td></td>
<td></td>
<td>Debt sustainability analysis (DSA)</td>
<td>Ad hoc research</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Fiscal risk statement</td>
<td></td>
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<td></td>
<td>Report on compliance with fiscal rules</td>
<td></td>
</tr>
</tbody>
</table>
Possible Outline of a MT Fiscal Strategy Statement

PART 1: MEDIUM-TERM MACROECONOMIC FRAMEWORK
• International economic environment
• Macroeconomic policies
• Medium-term macroeconomic projections (extending 3, 5 or 10 years).
• Table with key indicators and assumptions.

PART 2: MEDIUM-TERM FISCAL STRATEGY, PROJECTIONS AND POLICIES
• Short- and medium-term fiscal policy priorities
  o Short- and medium-term fiscal targets – and progress in achieving them
  o Tax and non-tax revenue policies
  o Expenditure policies and sector/program priorities
  o New fiscal policy measures – and their quantitative impact
• Medium-term fiscal framework (baseline projections plus impact of new policies)
  o Revenues, expenditures, budget balance, debt
  o Public sector (or Government) assets and liabilities
• Alternative Scenario Projections
• Fiscal Risks (near term)

PART 3: LONG-TERM FISCAL SUSTAINABILITY
• Debt sustainability analysis (gross and net debt)
• Longer-term structural policies and fiscal risks
Question: How completely does your MFU perform the 4 functions?

1. Macroeconomic and fiscal modeling and forecasting, including deficit/debt/grant analysis
2. Macro-fiscal policy analysis
3. Fiscal risk analysis
4. Monitoring macroeconomic and fiscal developments
Part III: Organizational Arrangements for the Macro-Fiscal function

1. Where are macro-functions located?
2. Possible internal structure of a MFU
3. Staffing the MFU
4. Need for Coordination
1. Location of macro-fiscal functions

• A MoF’s major function is to prepare the MT fiscal strategy and framework, etc.
• Hence, all MFU functions should be inside the MoF.
• However, in practice:
  • Politics may not favor a strong Minister of Finance, e.g., the President diffuses some powers widely
  • Planning Ministries (or equivalent) exist and they perform some, or several, macro-fiscal functions
  • Other ministries/agencies are involved in macro-fiscal functions
• There is no “one-size-fits-all” location for MFUs
## Organizational arrangements for MFUs in different countries

<table>
<thead>
<tr>
<th>“Models” for the Macro-Fiscal Unit</th>
<th>Ministry of Finance (MoF)</th>
<th>Another Ministry</th>
<th>Council, or Agency, under the Executive</th>
<th>Independent Agency</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Macro Fiscal Unit / Department</td>
<td>Budget Department</td>
<td>Other departments (Tax Policy, Treasury, DMO, etc.)</td>
<td>Planning</td>
</tr>
<tr>
<td>1. One MoF Department</td>
<td>✓</td>
<td>[ ]</td>
<td>[ ]</td>
<td></td>
</tr>
<tr>
<td>2. Several MoF Departments</td>
<td>✓</td>
<td>✓  ✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Two ministries:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. One MoF Department, plus a planning ministry/agency</td>
<td>✓</td>
<td>[ ]</td>
<td>[ ]</td>
<td>✓  ✓</td>
</tr>
<tr>
<td>b. One MoF Department, plus a budget or economy ministry</td>
<td>✓</td>
<td>[ ]</td>
<td>[ ]</td>
<td>✓  ✓</td>
</tr>
<tr>
<td>4. Three Ministries/Agencies:</td>
<td></td>
<td></td>
<td></td>
<td>[ ]</td>
</tr>
<tr>
<td>a. Three separate ministries</td>
<td>✓</td>
<td>[ ]</td>
<td>[ ]</td>
<td>✓  ✓</td>
</tr>
<tr>
<td>b. Three Departments/agencies under the Executive</td>
<td>✓</td>
<td>[ ]</td>
<td>[ ]</td>
<td>✓  ✓</td>
</tr>
<tr>
<td>5. An independent macro-fiscal forecasting agency/council</td>
<td>[✓]</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[✓]</td>
</tr>
</tbody>
</table>

**Note:** A ✓ refers to the location of components of the MFU; The square brackets [ ] indicate that other departments of the MoF or agencies outside the MoF perform tasks that are primarily supplementary to the work of the MFU.
2. Internal structure of a MFU

• There is no “one-size-fits-all” for the organizational and hierarchical structure of the MFU.

• The structure of the MFU reflects the relative importance of the 4 macro-fiscal functions and how they are spread within the MoF and elsewhere.

• Initially, the emphasis should be on establishing a MFU structure that can produce a sound MT fiscal strategy and framework.
<table>
<thead>
<tr>
<th>Responsibilities</th>
<th>Macroeconomic and Fiscal Forecasting Division</th>
<th>Fiscal Policy Division</th>
<th>Structural Fiscal Policy Division</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Maintain a central database of key macroeconomic and fiscal variables.</td>
<td>• Prepare fiscal analysis and policy advice.</td>
<td>• Provide theoretical and quantitative analysis of specific fiscal policy issues -- those structural or longer-term in nature, e.g. options for tax reforms; the impact of changes in oil prices on the budgetary outlook; role of public investment or PPPs.</td>
</tr>
<tr>
<td></td>
<td>• Forecast macroeconomic and fiscal variables.</td>
<td>• Analyze overall revenue and expenditure developments.</td>
<td>• Analyze fiscal risks and prepare the annual fiscal risk statement.</td>
</tr>
<tr>
<td></td>
<td>• Prepare alternative assumptions and policy scenarios affect revenues and expenditures (sensitivity analysis) and the MTFF.</td>
<td>• Propose “top-down” expenditure ceilings.</td>
<td>• (in collaboration with the Forecasting Division) Prepare long-term projections, particularly those for assessing the impact of ageing on the budgetary cost of pensions and health care.</td>
</tr>
<tr>
<td></td>
<td>• Compare short-term fiscal projections with actual outcomes.</td>
<td>• Ensure the consistency of MT projections with medium-term fiscal targets.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Draft regular reports of macroeconomic and fiscal developments and forecasts</td>
<td>• Propose new policies</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Prepare debt sustainability analyses, in collaboration with the DMO.</td>
<td>• Ensure updates of the medium term fiscal strategy and MT fiscal policy objectives.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• (if relevant) Ensure that the updated MT fiscal framework is consistent with fiscal rules.</td>
<td></td>
</tr>
</tbody>
</table>
3. Staffing, remuneration and skills

• Staff size of MFU depends mainly on:
  • **Functions** undertaken (small countries are limited)
  • **Financing**: overall budget of MoF and civil service remuneration

• MFU is a crucial division of the MoF

• Head of MoF should be remunerated as for comparable Directors in MoF (Budget, Treasury—Accountant General, Debt,...) and, ideally, with comparable Directors at the central bank

• Training is needed. Secondment of central bank staff to the MFU/MoF may be considered in some countries
4. Need for Coordination

a) Coordination within the MoF

b) Coordination with agencies / ministries outside the MOF
4a. Coordination *within* the MoF

Coordination is crucial, especially with:

- Budget Department
- Tax Policy Department / Revenue Authority
- Debt / Aid Management Office(s)
- Treasury – Accountant General’s Office
4b. Coordination with agencies / ministries outside the MOF

- Ministry of Planning (or equivalent agency), e.g., for macroeconomic and/or investment budget projections
- Ministry of Economy (if it exists)
- National Statistics Office, for macroeconomic data, especially National Accounts
- Central Bank, e.g., for comparing data, assumptions and projections
- Other relevant ministries / agencies whose activities impact on macro-fiscal developments