

1

PRESENTATION OUTLINE

- I. INTRODUCTION**
- II. ADAPTING INSTITUTIONS AND PROCESSES**
- III. DESIGNING A FISCAL STRATEGY AMID HIGH UNCERTAINTY**
- IV. GUIDING BUDGETS, SETTING CEILINGS, AND NEGOTIATING WITH LINE MINISTRIES**
- V. PAVING THE WAY FOR AGILITY, RESPONSIVENESS, AND MONITORING IN FY2021 BUDGET EXECUTION**
- VI. CONVEYING THE RIGHT MESSAGE ON FY2021 BUDGET**

2

INTRODUCTION

- **Four key challenges in preparing FY2021 budget amid the unique uncertainty of COVID-19 crisis:**
 - ▶ Taking stock of the (still uncertain) impact of the COVID-19 crisis on the economy and the government's fiscal position.
 - ▶ Evaluating the fiscal space for continued priority crisis spending and recovery measures.
 - ▶ Assessing the government's financing needs.
 - ▶ Enhancing transparency and accountability by presenting and accounting for COVID-19 related fiscal responses, including off-budget measures.
- **Unprecedented scope of these challenges make the preparation of FY2021 budget an especially difficult exercise**
 - ▶ This note prepared by the IMF Fiscal Affairs Department (FAD) provides guidance on addressing main issues.
 - ▶ This general advice needs to be tailored in light of country-specific circumstances, most notably existing PFM institutions and capacities.

PRESENTATION OUTLINE

- I. INTRODUCTION
- II. ADAPTING INSTITUTIONS AND PROCESSES**
- III. DESIGNING A FISCAL STRATEGY AMID HIGH UNCERTAINTY
- IV. GUIDING BUDGETS, SETTING CEILINGS, AND NEGOTIATING WITH LINE MINISTRIES
- V. PAVING THE WAY FOR AGILITY, RESPONSIVENESS, AND MONITORING IN FY2021 BUDGET EXECUTION
- VI. CONVEYING THE RIGHT MESSAGE ON FY2021 BUDGET

Adapting Institutions and Processes

▪ Adapt the role of institutional actors

- ▶ Need for strong steering and collective ownership: more prominent role for the Prime Minister's Office or special Cabinet committees, in conjunction with the Central Budget Authority (CBA).
- ▶ This applies regardless of the initial type of budget process (more “top down” or more “bottom up”), and respective role of CBA and Line Ministries and Agencies (LMAs).

▪ Revisit timeframes and deadlines

- ▶ Adjustments to the budget timeline may be needed to ensure enough time for stakeholders.
- ▶ But they need to be compatible with the legal framework (e.g., seek legislative approval, or a legal authorization if needed) and to be designed and explained in order not to undermine the credibility of the government's COVID-19 response or its standing on financial markets.

Adapting Institutions and Processes

▪ Develop working methods compatible with social distancing

- ▶ CBA should anticipate challenges likely to occur in the upcoming budget process:
 - ◆ How to deal with coworking on sharing documents?
 - ◆ How to harmonize video-meeting applications?
 - ◆ How to adjust working arrangements to make quicker decisions?
- ▶ If physical meetings remain necessary: need to follow social distancing rules with limited participants in secured locations.
- ▶ New working methods (online sessions) to promote citizen participation or Parliament scrutiny.

▪ Invest in building political and public awareness and consensus

- ▶ Need to build both political consensus and awareness (e.g., additional parliamentary hearings and use of special committees to provide a more cohesive political platform).
- ▶ Public consultation (e.g., with employers' and employees' unions) can help to build wider consensus and improve the design and targeting of policy measures.

PRESENTATION OUTLINE

- I. INTRODUCTION
- II. ADAPTING INSTITUTIONS AND PROCESSES
- III. DESIGNING A FISCAL STRATEGY AMID HIGH UNCERTAINTY
- IV. GUIDING BUDGETS, SETTING CEILINGS, AND NEGOTIATING WITH LINE MINISTRIES
- V. PAVING THE WAY FOR AGILITY, RESPONSIVENESS, AND MONITORING IN FY2021 BUDGET EXECUTION
- VI. CONVEYING THE RIGHT MESSAGE ON FY2021 BUDGET

INTERNATIONAL MONETARY FUND

7

7

Factoring in Macroeconomic Uncertainty...

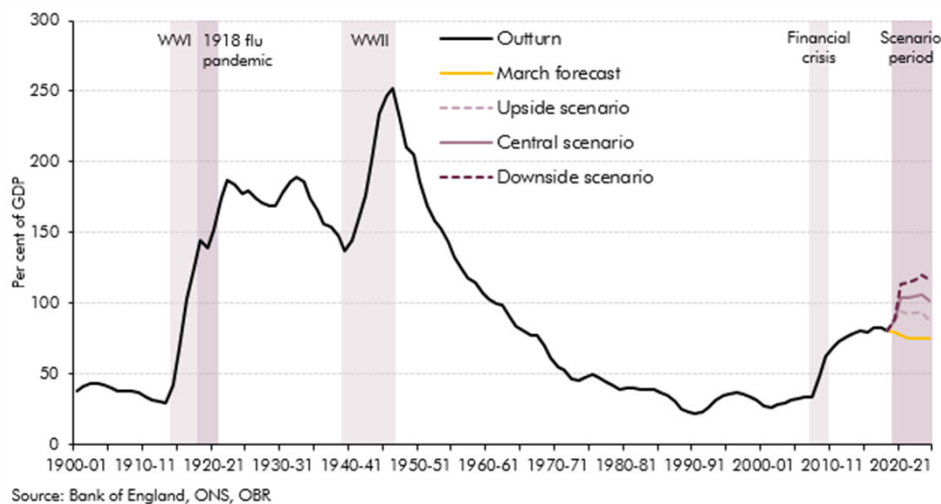
- **Instead of a single macro-fiscal scenario, outline several scenarios and make policies contingent on them**
 - ▶ Even in normal times, it is common that governments are open about the risks to their central (most likely) scenario and their strategies to mitigate these risks.
 - ▶ Under these exceptional circumstances: use different scenarios and show how policies will be refined and adapted according to different assumptions, especially with regard to the impact on public revenue linked to the economic slowdown (e.g., all euro area countries, but also EMEs or LIDCs such as Egypt or Malawi).
- **Envision more frequent revisions to the macro-fiscal framework**
 - ▶ Forecasts will need to be revised more frequently to alert policymakers about the need to alter their policies in light of new information. (e.g. the UK Office for Budget Responsibility (OBR) revised its baseline fiscal scenario **every month** and refined its fiscal estimates for 2021 accordingly).

INTERNATIONAL MONETARY FUND

8

8

Use of Scenarios by OBR (UK): Evolution of Public Debt



INTERNATIONAL MONETARY FUND

9

9

....While Striving to Preserve a Medium-Term Outlook

- **Clarify the overall fiscal constraint considering financing needs**
 - ▶ The CBA (in collaboration with other stakeholders, notably the Debt Management Office) needs to study the possible financing options to assess the overall fiscal constraint and fiscal strategy.
- **Preserve a medium-term perspective to budgeting**
 - ▶ A medium-term perspective may already be enshrined in practice or in the legal framework.
 - ▶ Medium-term outlook will need to be reviewed before the Line Ministries Agencies (LMAs)' budget submissions and adequate buffers created for the budget negotiations.
 - ▶ This medium-term perspective must be used to lock in future savings and reverse impact of one-off measures.
- **Re-anchor fiscal strategy**
 - ▶ The budget should clarify whether pre-COVID-19 fiscal policy objectives and rules have been temporarily suspended and/or escape clauses activated (e.g., European Union (EU) countries).
 - ▶ At the earliest possible stage: try to chart a path toward resuming normal application of fiscal rules.
- **Give a clear picture of fiscal risks.**
 - ▶ Cover risks that pre-existed and additional risks from new COVID-19 policies (for example, new guarantees, loans, and equity injections).

INTERNATIONAL MONETARY FUND

10

10

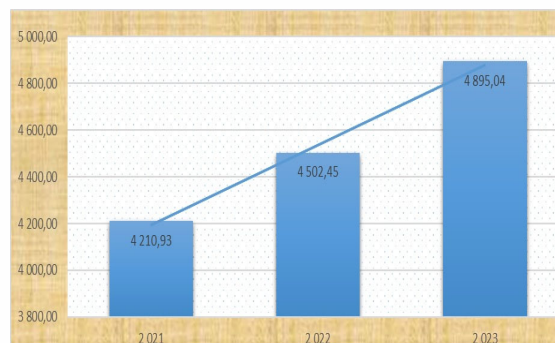
A Medium-Term Budget Document: Example of Senegal

- **Document de Programmation Budgétaire et Economique Pluriannuelle (DPBEP) for 2021-2023.** Published at the end of June 2020, in line with WAEMU directives.

- **Includes:**

- ▶ Presentation of the macroeconomic environment for 2020 and prospects for 2021-2023;
- ▶ 2019 budget outturn and perspectives for 2020;
- ▶ Medium-term outlook over 2021-2023, including a specific section on fiscal risks;
- ▶ Elements on fiscal situation of other public bodies.

Evolution of budget resources over the 2021-2023 period



Data in billion FCFA.

Source: DPBEP 2021-2023, June 2020, page 51.

PRESENTATION OUTLINE

- I. INTRODUCTION
- II. ADAPTING INSTITUTIONS AND PROCESSES
- III. DESIGNING A FISCAL STRATEGY AMID HIGH UNCERTAINTY
- IV. GUIDING BUDGETS, SETTING CEILINGS, AND NEGOTIATING WITH LINE MINISTRIES**
- V. PAVING THE WAY FOR AGILITY, RESPONSIVENESS, AND MONITORING IN FY2021 BUDGET EXECUTION
- VI. CONVEYING THE RIGHT MESSAGE ON FY2021 BUDGET

Setting Ceilings and Negotiating with Line Ministries (1/2)

- **Need for more “top-down” guidance, regardless of the circumstances and sequencing in determining ceilings and discussing budget submissions.**
- **Prepare for a more demanding exercise than usual to set the FY2021 baseline.**
 - ▶ The baseline for FY2021 needs to reflect not only the impact of discretionary COVID-19 policy measures but also the mechanical and nondiscretionary impact of COVID-19 on cost drivers of various public policies.
 - ▶ Given fiscal uncertainties, the CBA may want to revisit more thoroughly the nature of expenditure within the baseline, paving the way to limiting expenditure for each nonpriority department to a minimum envelope.
 - ▶ Tagging or adjusting the budget nomenclature can help isolate COVID19-related measures (e.g., Rwanda).
- **Clearly identify priority sectors**
 - ▶ Greater focus on strategic sectors (for example, health, social spending, water, support for economic recovery) as identified in the authorities' statements and public announcements.
 - ▶ Consideration must also be given to changes in priorities which may occur according to the stage of the pandemic (immediate health response, social safety nets, and short-term economic support, recovery measures).

INTERNATIONAL MONETARY FUND

13

13

Setting Ceilings and Negotiating with Line Ministries (2/2)

- **Assess the feasibility and efficiency of the proposed new spending measures**
 - ▶ Budget negotiations are a major opportunity for the CBA to harness the LMAs' knowledge of their sectors and to discuss the details of COVID-19 response or possible stimulus measures.
 - ▶ Contrary to what may have happened during FY2020 under extreme time pressure, measures need to be adequately vetted to avoid non-cooperative behavior by LMAs, such as:
 - ◆ Pushing for new sectoral policy measures while not covering fully COVID-19 priorities, assuming that the latter will inevitably be funded under political pressure during FY2021;
 - ◆ “Painting” as recurrent expenditure “one-off” expenditures related to the crisis, to gain fiscal space within their budget for additional measures to be decided during FY2021;
 - ◆ Presenting measures under post-COVID-19 recovery support that corresponds to the LMA's priorities but do not fit the criteria under the 3T rule (*timely, temporary, targeted*).
- **Be prepared to conduct bigger reallocations than usual**
 - ▶ Non-priority spending and sectors will need to support the larger share of budget savings and adjustments.
 - ▶ While it may not be possible to conduct a fully-fledged spending review in time to construct the FY2021 budget, a simplified expenditure review could use international ratios and standards to identify savings.

INTERNATIONAL MONETARY FUND

14

14

The Philippines – Budget Circular

- **National Budget Memorandum 136, published on May 21, 2020.**
- **Outline of content:**
 - ▶ Information on the amount of the FY 2021 fiscal space based on the latest macroeconomic assumptions and fiscal aggregates approved by the Development Budget Coordination Committee (DBCC);
 - ▶ The key strategies and programs/projects which will be prioritized for funding under the fiscal space given the drastic changes that the COVID-19 pandemic has introduced in both the economic life and societal sphere of the nation; and,
 - ▶ The specific guidelines in the formulation of the budget proposals which shall be submitted on or before May 25, 2020.
- **Clear identification of priority sectors and affirmation of the need for stronger redeployments**
 - ▶ In view of the limited fiscal space, the entire budget for FY 2021 will need to be reviewed and reprioritized towards \:
 - ◆ containing the spread and mitigating the effects of the COVID19 virus, absent a vaccine;
 - ◆ restarting the economy to be able to create jobs and attract investments;
 - ◆ and transitioning to the "new normal" environment post pandemic as outlined in the National Economic Development Authority (NEDA) Report "We Recover as One".
 - ▶ The goal is to save lives and protect communities while making the different sectors of the economy stronger and more agile.

INTERNATIONAL MONETARY FUND

15

15

PRESENTATION OUTLINE

- I. INTRODUCTION
- II. ADAPTING INSTITUTIONS AND PROCESSES
- III. DESIGNING A FISCAL STRATEGY AMID HIGH UNCERTAINTY
- IV. GUIDING BUDGETS, SETTING CEILINGS, AND NEGOTIATING WITH LINE MINISTRIES
- V. **PAVING THE WAY FOR AGILITY, RESPONSIVENESS, AND MONITORING IN FY2021 BUDGET EXECUTION**
- VI. CONVEYING THE RIGHT MESSAGE ON FY2021 BUDGET

INTERNATIONAL MONETARY FUND

16

16

Which Strategy to Promote Agility in FY2021 Budget Execution ?



Each option has pros and cons and the appropriate strategy will depend very much on country-specific factors.

Strategy	Pros and Cons	Comments
Contingency / Reserve Envelopes	<ul style="list-style-type: none"> + Increases capacity for swift reaction - Can limit information of Parliament 	Need for transparency and safeguards on the triggers for the use of funds : avoid that the use of the reserve becomes an alternative budget process.
Increased in-year budget flexibility mechanisms	<ul style="list-style-type: none"> + No need for specific arrangements - Too limited if the need for reallocation is greater than anticipated 	Highly dependent on the country's legal framework, that may or may not allow for more discretion in period of stress.
Supplementary budget(s)	<ul style="list-style-type: none"> + Guarantees parliamentary scrutiny as well as a tailored and timely adjustment to circumstances - May be too cumbersome and slow for countries with limited capacity 	An excessive number of supplementary budgets may also undermine credibility.

INTERNATIONAL MONETARY FUND

17

17

Ensuring a Closer Monitoring of Budget Execution

- **Close monitoring of budget execution will be needed to control the rate of expenditure throughout the whole fiscal year. Getting the right information at the budget preparation stage is critical in this respect.**
- **Require all LMAs to prepare spending plans subject to formalized approval by the MoF**
 - Identify spending related to the baseline scenario and to COVID-19 response, and spending to put on hold.
 - Set explicit targets on execution to support delivery and ensure quick spending in priority areas.
 - Ensure this is reflected in cash management plan.
- **Consider options for putting on hold a portion of LMAs' FY2021 budget allocations and releasing them gradually only if certain conditions materialize in-year**
 - Across-the-board freezing of part of FY2021 appropriations (e.g., France).
 - More specific freezing for non-priority sectors and expenditures through the creation of reserve appropriations based on specific budget items/lines.
- **Include budget execution monitoring measures at the budget preparation stage, to support transparency and mitigate vulnerabilities to corruption**
 - Online spending portals to enable the public to track COVID-19 expenditures.
 - Extend any extraordinary expenditure control measures put in place as part of the crisis response (see IMF note on "Keeping the Receipts").

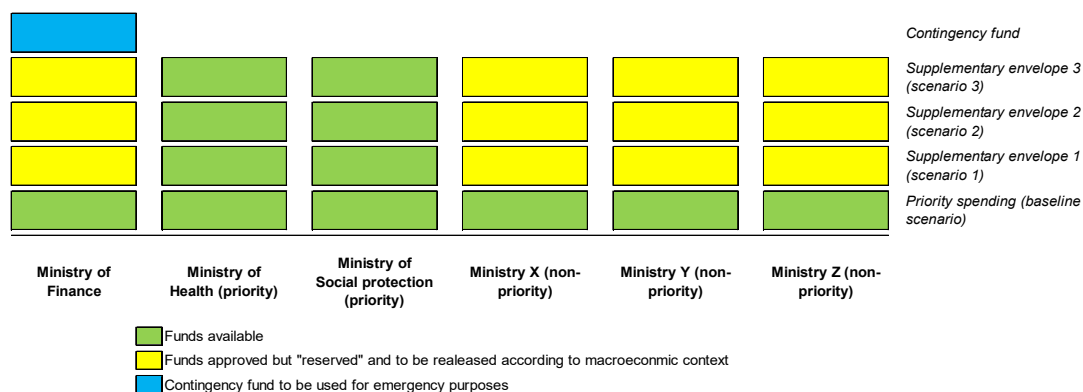
INTERNATIONAL MONETARY FUND

18

18

Mechanism for Ensuring Budget Agility: An Example

- The different options discussed before (contingency funds, specific freezing, etc.) can be used cumulatively in the budget based on the distinction between priority and non-priority sectors.



PRESENTATION OUTLINE

- I. INTRODUCTION
- II. ADAPTING INSTITUTIONS AND PROCESSES
- III. DESIGNING A FISCAL STRATEGY AMID HIGH UNCERTAINTY
- IV. GUIDING BUDGETS, SETTING CEILINGS, AND NEGOTIATING WITH LINE MINISTRIES
- V. PAVING THE WAY FOR AGILITY, RESPONSIVENESS, AND MONITORING IN FY2021 BUDGET EXECUTION
- VI. CONVEYING THE RIGHT MESSAGE ON FY2021 BUDGET

Conveying the Right Message on the FY2021 Budget

- The FY2021 Budget needs to provide clarity and credibility in a highly complex context to sustain the confidence of the wider public and investors in the effectiveness of the government's policy response.
- The budget documentation for the FY2021 Budget is an important opportunity to provide a complete picture on the announced policy measures and packages, notably by:
 - ▶ Regularizing previously and newly announced measures (e.g., United Kingdom's OBR regularly updates a "policy monitoring database").
 - ▶ Including off-budget COVID-19-related measures to enable the legislature to assess the appropriateness of response packages in the fuller policy context (e.g., special appendix including all fiscal and non-fiscal measures).

Presentation of COVID-19 Response: Example of OBR (UK)

	£ billion					
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Effect of Government decisions	-4.1	-192.3	-0.1	-0.2	-1.4	-0.9
of which:						
Measures included in the FSR	-3.6	-142.2	2.0	-1.5	-1.4	-0.9
of which:						
Public services spending	-1.7	-18.8	-0.6	-0.6	-0.6	-
Employment support	-2.3	-62.2	2.8	-	-	-
Business support: loans and guarantees	-	-20.0	0.1	0.1	0.1	0.0
Business support: tax and spending	0.2	-30.2	0.2	-0.1	-	-
Welfare spending measures	-	-9.3	-1.0	-0.9	-0.9	-0.9
Other tax measures	0.2	-1.7	0.5	0.0	-0.1	-0.1
Summer Economic Update: Plan for Jobs measures	-	-19.8	-1.4	1.3	0.0	0.0
Summer Economic Update: Other measures	-0.5	-30.4	-0.6	-	-	-
Effect of Government decisions	-4.1	-192.3	-0.1	-0.2	-1.4	-0.9
of which:						
Resource DEL	-2.2	-69.2	-0.6	-	-	-
Capital DEL	-	-7.1	0.7	0.7	-0.6	-
Resource AME	-2.5	-84.9	-2.3	-0.8	-0.8	-0.8
Capital AME	-	-17.0	-0.0	-0.0	-	-
Receipts	0.6	-14.2	2.2	-0.1	-0.1	-0.1

Note: The presentation of these numbers is consistent with the usual scorecard treatment, with negative signs implying loss to the Exchequer (and so raising public sector net borrowing).

FSR: Fiscal Sustainability Report; DEL: Departmental Expenditure Limits; AME: Annually Managed Expenditures

Recommendations for FY2021 Budget Documentation

- **Explain assumptions and uncertainty in the fiscal and economic outlook.**
 - ▶ Explain how COVID-19 has affected the FY2020 fiscal and economic outlook.
 - ▶ Clearly set out assumptions underpinning the central outlook—such as length of lockdown, assumed employment recovery, and assumed impact of mitigation measures.
 - ▶ Appropriately communicate uncertainty and risks in the central forecast, possibly through sensitivity or scenario analysis (e.g., USA).
- **Produce forward-looking guidance on financing.**
 - ▶ Revisions to debt management strategies or to borrowing plans.
- **Present the benefits and impacts for different groups in the economy.**
 - ▶ Using chapters or supplementary publications dedicated to groups such as the vulnerable, small businesses, or the manufacturing sector.
 - ▶ This will also help in scrutinizing whether the overall package is appropriately balanced across the different parts of society.
- **Continue efforts to enrich information on gender, climate change, and UN Sustainable Development Goals.**

INTERNATIONAL MONETARY FUND

23

23

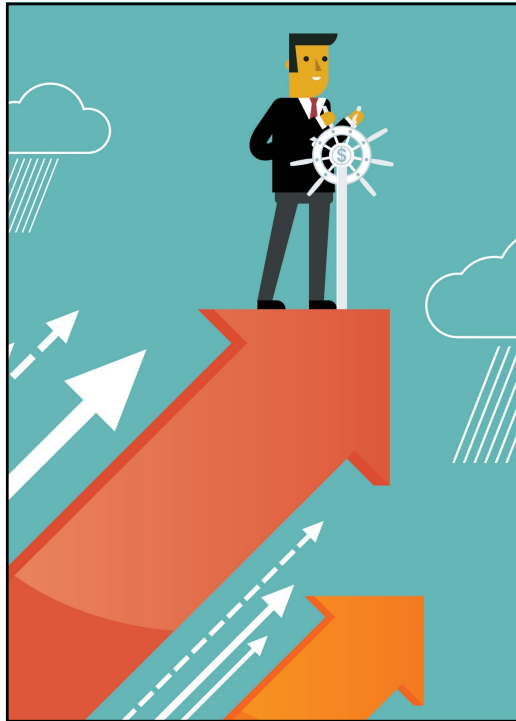
Conclusion: Main Messages for the FY21 Budget Process

Phase	Message
Overall	<ul style="list-style-type: none"> • Make specific adjustments to institutions and processes to manage the constraints of social distancing and reinforce strategic guidance and central leadership.
Strategy-setting	<ul style="list-style-type: none"> • Revise the macro-economic framework to account for the impact of the crisis and the COVID-19 measures and carry out more frequent updates to forecasts. • Strive to present a credible fiscal strategy, re-anchored on revised medium-term fiscal objectives.
Budget Guidance and Negotiation	<ul style="list-style-type: none"> • Communicate early and clearly to line ministries and agencies (LMAs), using the budget circular, on priority spending and reallocation needs. • Prepare for a more demanding exercise than usual to set the budget baseline. • Design and plan for more flexible and agile budgets, which balance the executive's need for responsiveness with the need for legislative scrutiny. • Prepare the budget to take account of the need for closer monitoring and control during budget execution.
Budget Documentation and Legislative Approval	<ul style="list-style-type: none"> • Use budget documentation to bring clarity to a very complex picture and bolster confidence in the government's fiscal, economic and social strategies.

INTERNATIONAL MONETARY FUND

24

24



**THANK YOU FOR YOUR KIND
ATTENTION**

**[https://www.imf.org/en/Publications/SPROLLs/covid19-special-
notes](https://www.imf.org/en/Publications/SPROLLs/covid19-special-notes)**