

Medium-term expenditure frameworks (MTEFs) are an important tool for overcoming the limitations of the annual budget cycle by adopting a medium-term perspective for achieving government fiscal objectives. They generally span a period of at least three years beyond the current budget. MTEFs are typically defined by combining expenditure ceilings and a baseline estimation of government policies' costs that are continually updated.

MTEFs improve budget formulation by encouraging the development of spending plans on the basis of existing resources and by promoting fiscal discipline. By incorporating a medium-term perspective in the budget process, they allow for a more efficient resource allocation aligned with the government's goals, and they link the annual budget to multi-year policies. Moreover, MTEFs can increase budget stability by decreasing uncertainty in the financial flows for ministries and agencies, affording time to adjust and plan their operations accordingly.

A major challenge in implementing successful MTEFs is ensuring that expenditure estimates and ceilings are based on high-quality projections. Active co-ordination with line ministries and sub-national governments, both of which account for large amounts of government expenditure is also required.

More than two-third of SEA countries (70%), and nearly all OECD countries (91%), have established a medium-term expenditure framework. Their legal foundation may be an important factor in determining the effectiveness of MTEFs: it is illustrated by the degree to which they are stipulated in legislation, decided by the executive or the legislative, and subsequently monitored by the legislative or independent bodies. For example, having an MTEF defined in a law may enhance effectiveness as it opens it to greater accountability and transparency.

Of ten SEA countries, only Indonesia, Thailand and Viet Nam have laws detailing the existence of an MTEF or of budget ceilings at some level of expenditure. For OECD countries this applies in 72% of cases (24 countries out of 33). Similarly to OECD countries in the SEA region, ceilings range mainly from 3 to 5 years. Unlike OECD countries (66%), only 30% of SEA countries have ceilings in place for total expenditures, with most countries focusing instead on organisational expenditures per ministry level or other. Only Viet Nam has ceilings in place for programme or sector expenditures.

Methodology and definitions

Data for SEA countries refer to country responses to the 2018 OECD Budget Practices and Procedures Survey for Asian Countries. OECD country responses are to the 2018 OECD Budget Practices and Procedures Survey. Respondents were predominantly senior budget officials in SEA countries and OECD countries. Responses represent the countries' self-assessments of current practices and procedures. Data refer only to central/federal governments and exclude the sub-national level. OECD totals are based on responses by 33 OECD countries as no 2018 data is available for the United Kingdom and the United States.

An MTEF is a structured approach to integrating fiscal policy and budgeting over a multi-year horizon. Aggregate fiscal forecasts are linked to medium-term budget estimates by ministries, reflecting existing government policies. Forward estimates of expenditures become the basis of budget negotiations in the years following the budget and the forward estimates are reconciled with final outcomes in fiscal outcome reports.

Further reading

- ADB (2002), "Linking Planning and Budgeting: The Medium Term Expenditure Framework", Asian Development Bank, The Governance Brief, No. 2, <https://www.adb.org/sites/default/files/publication/28647/governancebrief02.pdf>.
- OECD (2014), *Budgeting Practices and Procedures in OECD Countries*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264059696-en>.
- World Bank (2013), "Beyond the Annual Budget: Global Experience with Medium Term Expenditure Frameworks", World Bank, Washington, DC, <http://dx.doi.org/10.1596/978-0-8213-9625-4>.

Figure notes

- Cambodia indicated intentions to introduce a MTEF in early 2018.
- Thailand's MTEF is stipulated in the 2018 Fiscal Responsibility Act of 19 April 2018.
- Viet Nam's 2015 State budget law stipulates a three-year medium-term framework, but doesn't stipulate the medium term ceilings in the budget.
- Australia's legal basis is the Charter of Budget Honesty Act which requires the government to prepare estimates for the budget year and the following three financial years. The Act requires the Government to publish its fiscal strategy.
- New Zealand's MTEF is based on a law requiring departmental baselines, with budget rules stipulating process for rolling over the forthcoming fiscal year.

4.6. Medium-term perspective in the budget process at the central level of government, 2018

	Existence and legal basis of MTEF	Main characteristics		Target(s) of expenditure ceilings		
		Length of ceilings (including upcoming fiscal year)	Frequency of ceilings revisions	Total expenditures	Programme or sector expenditures	Organisational expenditures
Brunei Darussalam	⊙	x	x	x	x	x
Cambodia	⊙	x	x	x	x	x
Indonesia	●	4 years	Annually			✓
Lao PDR	⊙	x	x	x	x	x
Malaysia	○	3 years	Annually	✓		
Myanmar	○	3 years	Annually			✓
Philippines	○	6 years or more	Annually	✓		
Singapore	○	5 years	Every 5 years			✓
Thailand	●	3 years	Annually			✓
Viet Nam	✓	3 years	Annually	✓	✓	✓
Australia	✓	4 years	More than once per year			
Japan	○	3 years	Not revised	✓	✓	
Korea	●	5 years	Annually	✓	✓	
New Zealand	✓	4 years	Annually	✓		✓

Key:

- Yes: in a law which stipulates both the existence of a MTEF and budget ceilings
- ⊙ Yes: in a law stipulating that spending thresholds should not exceed medium term estimates
- Yes: in a strategy/policy stipulating the MTEF and/or budget ceilings
- ✓ Yes
- ⊙ No
- x Not applicable (e.g. No MTEF in place)

Sources: For SEA countries, OECD (2018) Budget Practices and Procedures Survey for Asian Countries. For OECD countries, OECD (2018) Budget Practices and Procedures Survey.

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