Formulating the budget implies consultation and negotiation with line ministries and other spending units as well as obtaining parliamentary approval. The central budget authority consolidates a budget proposal that reflects policy priorities and existing financial commitments. Unanticipated circumstances (e.g. natural disasters, unexpected legal obligations) can alter the planned budget.

An instrument to react to unanticipated circumstances are complementary budgets and reserve funds. The frequent approval of complementary budgets may reflect poor budget preparation procedures, inappropriate costing of programmes, macroeconomics shocks, wrong forecast or governmental failure to adhere to announced budgetary policies. Yet, the opposite case does not necessarily imply strict adherence to budgetary discipline as it could result from a process that is too flexible or from upwardly biased budget allocations that allow circumventing the limits.

Between 2010 and 2017, Argentina, Brazil, Costa Rica, Dominican Republic, El Salvador, Paraguay and Peru approved complementary budgets every fiscal year. Guatemala approved complementary budgets every year, except 2013; and in Panama, complementary budgets were approved in 2012, 2014, 2016 and 2017. The main reason for approving complementary budgets between 2014 and 2017 in Argentina and El Salvador were changing economic circumstances; in Brazil, modifications were made to transfer funds between appropriations; in the Dominican Republic and Paraguay, emergency needs were the main drivers; while in Panama the increase in estimates of mandatory spending was the main reason.

No complementary budgets were approved in the Bahamas, Chile, Mexico and Uruguay. In the Bahamas, improper planning processes (such as budgeting for salaries of personnel that went into retirement due to having outdated registers) lead to over-budgeting and under-spending. In the case of Mexico, there could be overspending (for instance, in 2013 there was an overspending of 6.3% in comparison to the approved budget). However, it could take place without resorting to complementary budgets, as current regulations only require the approval by the Ministry of Finance in specific cases, such as when they affect the primary and financial balance of the spending entity or when funds for investment are used for current expenditures.

Uruguay is a special case as it has a five-year budget. Every time a new government takes office after the elections, a budget has to be approved for the whole term. Modifications can only occur once a year at the time of reporting (generally increasing the ceilings).

Reserve funds grant budgetary flexibility to governments to resolve contingency expenditures. Results show that, according to the survey responses, 83% of LAC countries have established such funds, slightly less than in the OECD (91% of countries). Argentina, Brazil, Costa Rica, El Salvador, Guatemala, Panama, Peru and Uruguay have contingency reserves for unforeseen expenditures (such as natural disasters). Additionally, Argentina, Peru and Uruguay have contingency reserves for foreseen expenditures (such as new policies) and Argentina, Brazil Chile and Mexico have counter-cyclical stabilisation funds. Chile is the only country that has long-term reserve funds. The Bahamas does not have a reserve fund, but since 2018, the government has at its disposal a contingent credit line from multilateral banking in case of natural disasters.

Methodology and definitions

Data come from the 2018 OECD/IDB Survey of Budget Practices and Procedures to which 11 LAC countries responded and the 2018 OECD Survey of Budget Practices and Procedures, which collected data for Chile and Mexico. Data for the OECD refer to 34 respondent countries. Respondents were predominantly senior budget officials in LAC countries and OECD member 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.

A complementary or supplementary budget contains proposed amendments to the main annual budget. This is the mechanism with which the government seeks legislative approval for spending that differs from the original budget and appropriations. Supplementary budgets are given legal force through adjustment or supplementary appropriations.

A reserve fund, also called contingency reserve fund, is a separate fund or a budget provision set aside to meet unforeseen and unavoidable requirements that may arise during the budget year, like natural disasters or armed conflicts.

Further reading

Vammalle, C. and A. Ruiz Rivadeneira (2019), "Budgeting in Uruguay: Towards modern budgeting practices in Uruguay", *OECD Journal on Budgeting*, Vol. 19/1, OECD Publishing, Paris, *https://doi.org/10.1787/4ff4bfce-en*

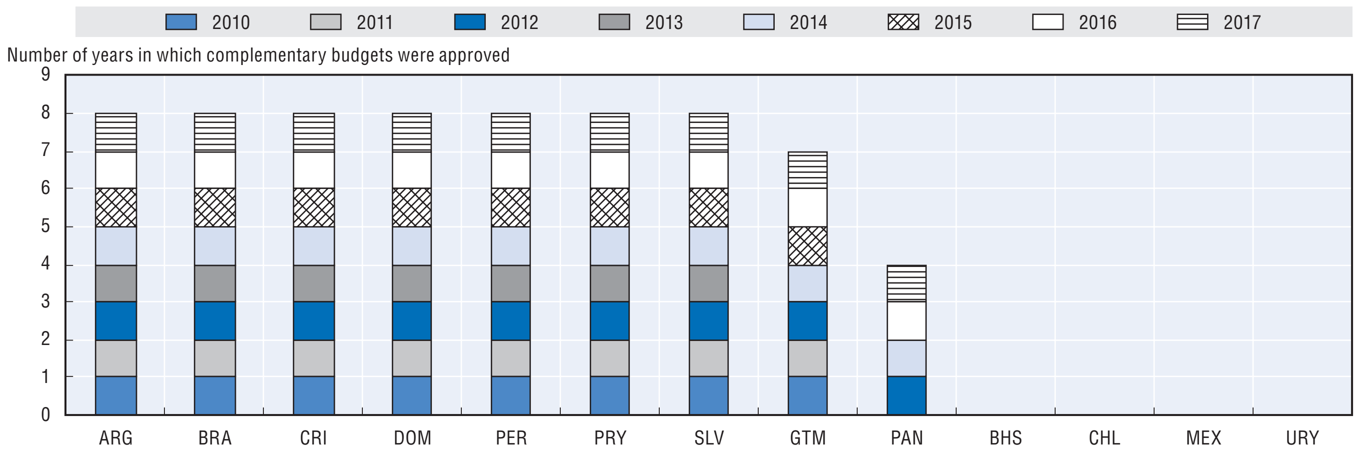
Figure notes

5.11. Data were corrected since the *Government at a Glance: Latin America and Caribbean 2017* for Panama for 2012, and for Paraguay for 2010, 2011 and 2012, new evidence showed that the countries had approved complementary budgets for such years. Bahamas and Uruguay responded only to one round of the survey.

5.12 Data for Chile, Guatemala and Mexico are not available.

5.13 Data for the Dominican Republic are not available. The Brazilian Sovereign Fund (Fundo Soberano) ceased existing in 2019.

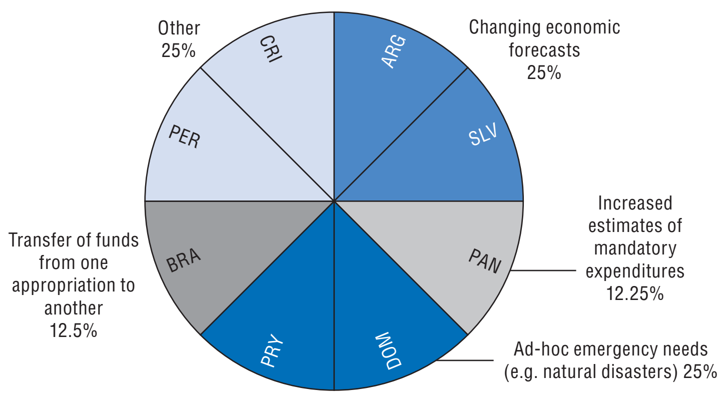
5.11. Approval of complementary budgets, fiscal years 2010 through 2017



Source: OECD/IDB (2018, 2013) Survey of Budget Practices and Procedures.

StatLink https://doi.org/10.1787/888934091999

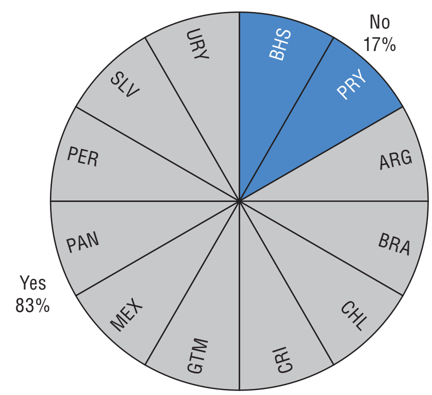
5.12. Main reason to approve complementary budget between 2014 and 2017, 2018



Source: OECD/IDB (2018, 2013) Survey of Budget Practices and Procedures.

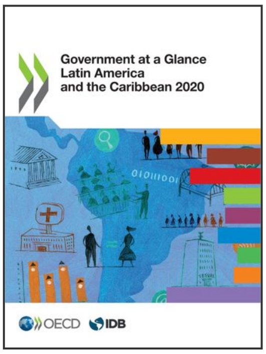
StatLink https://doi.org/10.1787/888934092018

5.13. Existence of reserve funds, 2018



Source: OECD/IDB (2018) Survey of Budget Practices and Procedures, OECD (2018) Survey of Budget Practices and Procedures.

StatLink https://doi.org/10.1787/888934092037



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